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1966 OUTLOOK ISSUE

DEMAND AND PRICE SITUATION



NOV 19 1965

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NOVEMBER 1965

AGRICULTURAL SITUATION AND OUTLOOK

Farmers are earning better incomes this year than at any time since 1952, and current prospects point to some further gain in 1966. Realized net farm income--the farmers' income above production expenses--is estimated at \$14 billion this year. This is more than a billion dollars above 1964. Expanding markets, the continued bright outlook for livestock, and the new farm program provide the basis for a continued rise in realized net farm income in 1966, possibly of \$1/4 to \$1/2 billion above the greatly improved 1965 level. Realized net income per farm in 1965 and disposable income per capita to the farm population will likely rise to new highs next year.

(Continued on page 3)

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AGRICULTURE

Table 1.--Economic factors affecting agriculture

Item	Unit or base period	1964			1965		
		Year	Oct.	July	Aug.	Sept.	Oct.
Industrial production <u>1/</u> <u>2/</u>	: 1957-59=100	: 132	: 132	: 144	: 144	: 143	---
Final products	: do.	: 132	: 130	: 142	: 142	: 143	---
Consumer goods	: do.	: 132	: 130	: 139	: 140	: 140	---
Autos	: do.	: 151	: 83	: 185	: 184	: 178	---
Equipment, including defense	: do.	: 132	: 132	: 147	: 148	: 149	---
Materials	: do.	: 133	: 133	: 146	: 146	: 143	---
Construction: <u>3/</u> <u>4/</u>	:	:	:	:	:	:	:
Total outlays	: Mil. dol.	: 65,817	: 64,861	: 68,599	: 67,878	: 68,529	---
Public construction	: Mil. dol.	: 19,926	: 19,567	: 19,996	: 19,742	: 20,555	---
Private residential	: Mil. dol.	: 26,507	: 25,685	: 26,983	: 26,510	: 26,138	---
Housing starts, private only	: Thousands	: 1,557	: 1,522	: 1,473	: 1,422	: 1,424	---
Manufacturers' shipments, orders, and inventories: <u>2/</u> <u>3/</u>	:	:	:	:	:	:	:
Total shipments	: Mil. dol.	: 37,129	: 36,811	: 41,452	: 40,518	: 40,115	---
Durable goods	: Mil. dol.	: 19,231	: 18,633	: 21,820	: 21,191	: 20,889	---
Unfilled orders	: Mil. dol.	: 57,044	: 56,067	: 60,981	: 61,391	: 62,480	---
Inventory stocks, book value <u>5/</u>	: Mil. dol.	: 62,944	: 61,777	: 65,394	: 65,788	: 66,235	---
Durable goods	: Mil. dol.	: 38,412	: 37,517	: 40,600	: 40,814	: 41,296	---
Employment and wages: <u>2/</u> <u>6/</u>	:	:	:	:	:	:	:
Total civilian employment	: Millions	: 70.4	: 70.4	: 72.8	: 72.4	: 72.2	---
Nonagricultural	: do.	: 65.6	: 65.7	: 68.1	: 67.8	: 67.8	---
Unemployment	: do.	: 3.9	: 3.9	: 3.4	: 3.4	: 3.3	---
Workweek in manufacturing	: Hours	: 40.7	: 40.5	: 40.9	: 40.9	: 40.9	---
Hourly earnings in manufacturing, unadj.	: Dollars	: 2.53	: 2.53	: 2.61	: 2.60	: 2.63	---
Income and spending:	:	:	:	:	:	:	:
Personal income <u>3/</u> <u>4/</u>	: Bil. dol.	: 495.0	: 502.8	: 530.5	: 532.0	: 545.3	---
Consumer credit outstanding <u>1/</u> <u>5/</u>	: Mil. dol.	: 76,810	: 73,928	: 80,686	: 81,454	: 81,924	---
Automobile	: Mil. dol.	: 24,521	: 24,423	: 27,171	: 27,493	: 27,555	---
Total retail sales <u>2/</u> <u>3/</u>	: Mil. dol.	: 21,802	: 21,383	: 23,743	: 23,653	: 23,344	---
Durable goods	: Mil. dol.	: 7,093	: 6,496	: 7,922	: 7,891	: 7,608	---
Inventory stocks, book value <u>5/</u>	: Mil. dol.	: 31,130	: 30,486	: 33,088	: 33,355	---	---
Prices: <u>6/</u>	:	:	:	:	:	:	:
Wholesale prices, all commodities	: 1957-59=100	: 100.5	: 100.8	: 102.9	: 102.9	: 103.0	---
Commodities other than farm and food	: do.	: 101.2	: 101.5	: 102.5	: 102.7	: 102.7	---
Farm products	: do.	: 94.3	: 93.8	: 100.0	: 99.1	: 99.5	---
Foods processed	: do.	: 101.0	: 101.7	: 106.6	: 106.7	: 106.7	---
Consumer price index, all items	: do.	: 108.1	: 108.5	: 110.2	: 110.0	: 110.2	---
Food	: do.	: 106.4	: 106.9	: 110.9	: 110.1	: 109.7	---
Prices received by farmers <u>7/</u>	: 1910-14=100	: 236	: 236	: 253	: 250	: 250	: 248
Crops	: do.	: 238	: 233	: 236	: 224	: 224	: 220
Livestock and products	: do.	: 235	: 239	: 269	: 272	: 271	: 273
Prices paid, interest, taxes and wage rates <u>7/</u>	: 1910-14=100	: 313	: 312	: 323	: 321	: 321	: 322
Family living items	: do.	: 300	: 300	: 307	: 305	: 305	: 305
Production items	: do.	: 270	: 269	: 278	: 277	: 277	: 276
Parity ratio <u>7/</u>	:	: 76	: 76	: 78	: 78	: 78	: 77
Farm income and marketings: <u>7/</u>	:	:	:	:	:	:	:
Volume of farm marketings	: 1957-59=100	: 118	: 180	: 114	: 118	: 140	: 180
Cash receipts from farm marketings	: Mil. dol.	: 36,899	: 4,725	: 3,046	: 3,224	: 3,903	: 4,900

Annual data for most of these items for years 1929, 1941, 1947 and 1951-64 appear on page 35 of the April 1965 issue of The Demand and Price Situation.

1/ Federal Reserve Board. 2/ Seasonally adjusted. 3/ U. S. Department of Commerce. 4/ Seasonally adjusted annual rates. 5/ End of year or month. 6/ U. S. Department of Labor. 7/ U. S. Department of Agriculture.

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 T H E D E M A N D A N D P R I C E S I T U A T I O N
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Approved by the Outlook and Situation Board, November 4, 1965

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Improved farm incomes in 1965 result mainly from increased receipts from livestock marketings. Smaller production of hogs and lambs resulted in a 4-percent reduction in per capita red meat supplies. In an expanding domestic market, this led to sharply higher prices for hogs, cattle, and lambs. As a group, meat animal prices this year are averaging 16 percent above 1964. Poultry prices are averaging higher by about 5 percent despite a 7-percent increase in slaughter. Smaller supplies resulted in sharply higher prices earlier this year for potatoes and early spring vegetables.

Some of the factors contributing to higher prices and incomes in 1965 will continue into 1966. A growing economy and rising consumer incomes will increase total consumer spending for food. The increase, however, is not expected to match the relatively large 6-percent advance in 1965 of which about half was due to higher prices. Even with an increase in spending for food, the share of the consumer's income spent for food likely will decline from the 18½ percent share estimated for 1965. Per capita food consumption is expected to hold at about the 1965 level. While retail food prices may

rise some in 1966, the increase likely will be smaller than this year and more likely will reflect changes in marketing charges rather than price rises at the farm level. Red meat prices are expected to average a little higher in 1966 if per capita supplies decline further as expected. However, bigger supplies and lower retail prices are indicated for poultry and potatoes. Moreover, fresh fruit and vegetable prices are expected to average below the relatively high levels of 1965. Prices for canned fruits and vegetables may rise from 1965 levels as a result of reduced pack this fall.

Exports of farm products in July-September were 7 percent above a year earlier, and for the 1965-66 fiscal year are expected to exceed record shipments of the past 2 years. Although the value of exports may be up only moderately, the volume may total 4 or 5 percent above 1964-65. Increased exports, particularly for commercial sales, are in prospect in the current fiscal year for soybeans and soybean oil, feed grains, wheat, tobacco, and some fruits. Smaller exports are indicated for dried beans, some livestock products, and possibly cotton. Expanding economic activity and rising incomes in Western Europe, Japan, and Canada are strengthening commercial markets for U. S. farm products. Increased demand for livestock products in the industrialized countries has stimulated U. S. exports of feed grains, soybeans, protein meals, and other farm products. Moreover, the United States will continue to ship large quantities of food to the less developed countries under Food-for-peace programs.

Generally higher prices for livestock products this year have increased cash receipts from livestock products by some \$1 3/4 billion above the \$19.8 billion in 1964. Although a further increase in livestock product receipts is indicated for 1966, the gain is not expected to match this year's big increase. The feeder cattle supply early next year will total about the same as a year earlier. More feed and continued favorable feeding margins indicate some increase in fed beef production in 1966, though a decline for nonfed beef may be partly offsetting.

Although hog producers apparently are beginning to take steps to reverse the decline in production that started in late 1963, slaughter supplies for 1966 as a whole are expected to average moderately below this year. Supplies will continue below a year earlier during the first half. But prospects for a modest increase in next spring's pig crop will lead to an expansion in slaughter supplies in the closing months of 1966. However, if producers increase late spring and fall farrowings by 10 percent or more, hog prices likely would decline sharply by late 1966 and during 1967. Hog producers should keep this potentially unfavorable price situation in mind in planning future production.

Prospects for some further decline in per capita red meat supplies, indicated for most of 1966, point to meat animal prices a little stronger during 1966. Dairy product prices, too, are expected to average slightly higher. Though producer prices for poultry are expected to average lower in 1966, cash receipts will likely increase again. The current buildup in broiler hatchery supply flocks and lower feed prices provide a greatly expanded output potential

Table 2.--Agricultural prices, marketings, and income, 1963 to date

Item	Unit	1963				1964				1965			
		Year	III	IV	Year	Year	III	IV	Year	I	II	III	III
Prices received by farmers													
Crops	:1910-14=100:	242	234	235	236	238	250	251					
Livestock and products	:1910-14=100:	239	229	234	238	235	245	228					
	:1910-14=100:	245	239	236	235	239	255	271					
Prices paid, interest, taxes and wage rates													
Family living items	:1910-14=100:	312	313	313	313	318	322	322					
Production items	:1910-14=100:	298	300	301	300	303	306	306					
	:1910-14=100:	273	269	269	270	273	277	277					
Parity ratio		78	75	75	76	75	78	78					
Volume of farm marketings													
Crops	:1957-59=100:	116	120	156	118	99	93	124					
Livestock and products	:1957-59=100:	119	125	193	119	84	63	131					
	:1957-59=100:	114	116	129	117	111	114	119					
Cash receipts from farm marketings <u>1/</u>													
Crops	: Bil. dol. :	37.3	9.1	12.3	36.9	7.9	7.9	10.1					
Livestock and products	: Bil. dol. :	17.4	4.2	6.9	17.1	3.1	2.7	4.5					
	: Bil. dol. :	19.9	4.9	5.4	19.8	4.8	5.2	5.6					
Farmers' realized net income <u>2/</u>													
	: Bil. dol. :	12.5	13.1	13.1	12.9	12.6	15.0	14.2					

1/ Seasonally adjusted annual rates are: 1964-III, \$37.0 billion; and IV, \$36.7 billion. 1965-I, \$36.7 billion; II, \$39.5 billion; III, \$39.0 billion.

2/ Seasonally adjusted annual rates.

U. S. Department of Agriculture.

for 1966. Large production increases likely would continue to exert downward pressure on prices, particularly later in 1966 as supplies of red meat begin to increase. For livestock products as a whole, the prospect for rising demand and a relatively small gain in total production points to some increase in producer prices and cash receipts above the greatly improved 1965 levels.

This year's harvests are bringing new records in yields per acre and in total output of food and fiber. With virtually no change in the acreage of crops, output this year is estimated to be some 7 percent above the 1964 levels and $4\frac{1}{2}$ percent above the previous high in 1963. Big production gains from 1964 of nearly 18 percent are indicated for feed grains, 23 percent for soybeans, and 25 percent for the important fall potato crop. The wheat crop is estimated to be 5 percent larger than in 1964, the hay crop is up 6 percent, and the cotton crop is about the same.

Carryover stocks of feed grains and wheat have been materially reduced in recent years. The feed grain carryover of 55 million tons this year is down from 85 million tons in 1961. Although domestic use and exports of feed grains are expected to increase in the 1965-66 marketing year, total utilization may fall short of 1965's big feed grain crop by about 5 million tons. Wheat stocks at midyear were down to 818 million bushels from over 1,400 million in 1961 and a further decline is in prospect for 1966. In contrast, stocks of upland cotton rose by nearly 2 million bales to 14 million last August, and current indications point to another 2-million-bale increase to a record high in 1966.

As the larger 1965 crops began moving to market, prices declined. Crop prices received by producers in October averaged about $5\frac{1}{2}$ percent below a year earlier. Soybean prices were down almost 10 percent, cotton 5 percent lower, and corn down 4 percent from October 1964. Potato prices averaged more than a fourth lower; orange and grapefruit prices, equivalent packinghouse door returns, in October 1965 were off more than a third from a year earlier. With big supplies and slightly lower loan rates for some 1965 crops, average prices received by farmers for crops in the closing months of 1965 will continue below year-earlier levels. However, receipts from crop marketings are being well maintained in 1965. To date, cash receipts--including Government payments--are running above 1964 for most major crops; but tobacco receipts are down because of reduced marketings, and citrus receipts are lower due to sharply reduced prices.

For 1966, crop prices and cash receipts from crop marketings may run somewhat below this year. But, with increased Government payments to producers participating in major farm programs, total returns from crops will be larger than in 1965.

The Food and Agriculture Act of 1965 continues the general pattern of price support loan levels for wheat and feed grains--aimed at about world price levels with price support payments and acreage diversion payments to maintain farmers' income and facilitate a movement toward a balance between supply and demand. The new legislation provides a similar program for cotton, for which stocks have risen rapidly in recent years. For the 1966 crop, the

price support loan level for cotton will be reduced substantially to 21 cents per pound compared with 29 cents for the 1965 crop. The competitive position of U. S. cotton in world markets will be substantially improved.

A new Cropland Adjustment Program, authorized by the Act, is designed to supplement commodity acreage diversion programs, provide more recreational facilities, and assist in adjustments of resources and people to profitable nonfarm activities. Specific incentives are provided to encourage farmers to share their land and water facilities with town and city people. At the same time, the program is designed to divert cropland through programs offering long-term contracts with lower payment rates than necessary for 1 year programs.

Thus, the outlook for 1966 sums to cash receipts from marketings about the same as those estimated for this year. Larger receipts indicated for livestock may be about offset by reductions in crop receipts. Government payments to farmers, however, will increase substantially, perhaps by about a billion dollars from the \$2.4 billion estimated for 1965. The increase represents a change in design of farm commodity programs, rather than an increase in total cost. One outstanding change is the reduction of price support loan rates for cotton to competitive world price levels. Larger payments offset the effect of those lower loan rates on income to cotton farmers. The program also largely eliminates payments to domestic cotton users and to exporters of cotton and wheat. Some increase in payments will result from the new provision in the wheat program to reflect parity prices in the total return to farmers for the share of the crop used domestically for food. The new Cropland Adjustment Program will also contribute to increased payments to farmers in 1966.

Realized gross farm income in 1966, including substantially larger Government payments, may total over \$45 billion compared with the \$44 $\frac{1}{4}$ billion now indicated for this year. A continued uptrend in production expenses in 1966 is expected to offset most of the indicated gain in gross farm income. Prices paid by farmers for production items, interest, taxes and wage rates will rise further in 1966. Depreciation and other overhead costs will increase again. But with little change likely in the bill for purchased feed and livestock, and some decline in expenditures for hired labor, the rise in total production expenses is expected to be smaller than the billion-dollar increase indicated for 1965.

Greatly improved net farm income this year, and declining farm numbers have resulted in an average realized net income per farm of more than \$4,100, up from \$3,727 in 1964. The 1965 level represents an increase of about 40 percent over the past 5 years. A slight increase in total realized net income, combined with a decline in number of farms, is expected to push net income per farm to a new high in 1966. These income gains put most farmers in a generally stronger financial position. The value of farm assets continues to rise, particularly as a result of the continuing uptrend in farm real estate values. Inventories of farm machinery and equipment are rising further this year.

Farmers have increased their savings deposits and other investments. Farm debt also is rising sharply again in 1965. And this uptrend in the use of credit likely will continue in 1966. But the dollar increase in debt will be much less than prospective gains in farm assets. Farm equities, as a result, rose in 1965 and prospects are good for a further improvement in the financial position of farmers in the coming year.

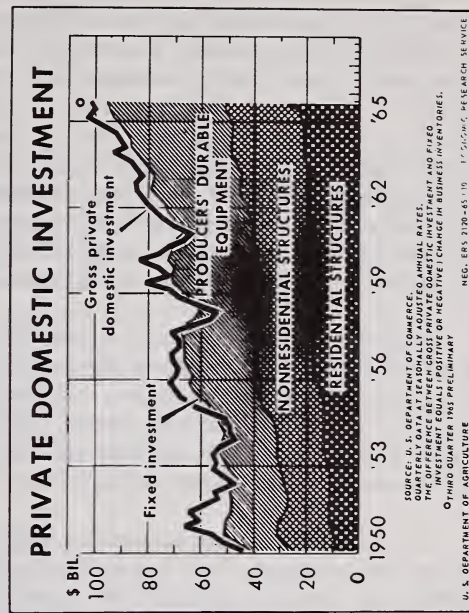
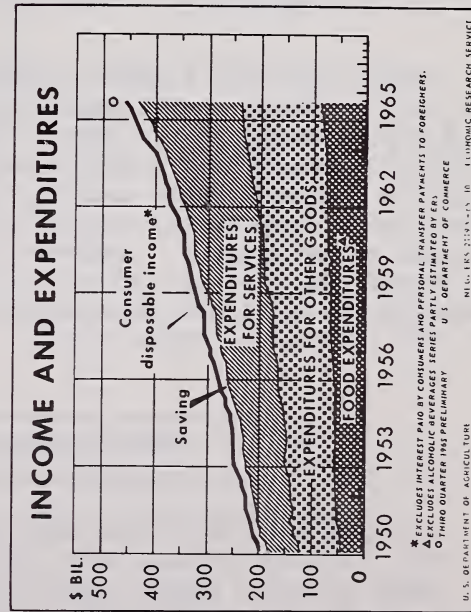
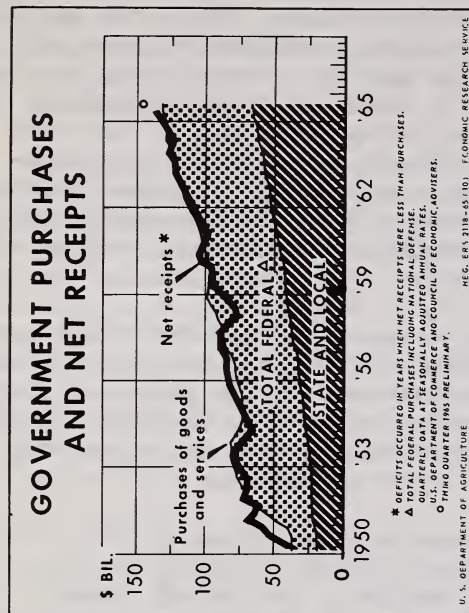
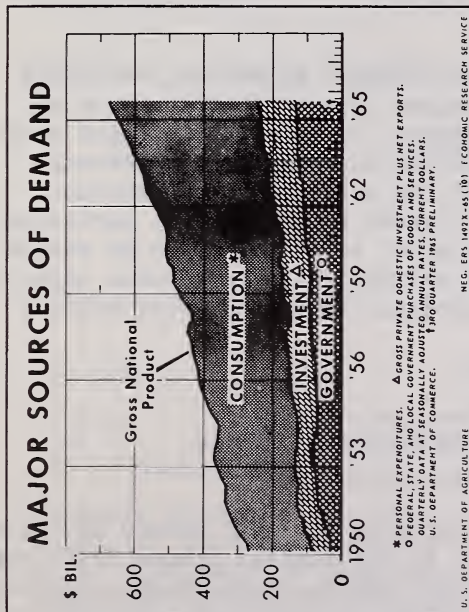
General Business Outlook for 1966

Prospective increases in spending by consumers, businessmen, and Government point to an expanding economy throughout 1965 and 1966. Gross National Product in 1966 is expected to increase substantially, possibly matching the average annual rate of growth during the current expansion.

From the trough in the first quarter of 1961 to the third quarter of 1965, Gross National Product increased over \$170 billion or at an average annual rate of 6.8 percent. Allowing for price changes, the growth rate has been over 5 percent per year. Consumers have been the major source of demand expansion, providing over 60 percent of the increase in final demand. Substantial increases in after-tax income, due to more jobs, higher wage rates, and reduced income tax rates have enabled consumers to support the large increase in Gross National Product. Businessmen have responded to increased sales with large increases in expenditures for new plant and equipment. State and local Government spending for goods and services has continued its steady uptrend. Federal purchases from mid-1962 until recently were relatively stable.

The consumer sector is expected to contribute materially to growth in demand again in 1966. This year, consumer income after taxes is more than $5\frac{1}{2}$ percent per person above a year earlier. With prospective increases in employment and wage rates, consumer income will continue to rise in 1966. Expanded consumer buying power is expected to further increase spending for most goods and services in the coming year. Recent surveys indicate that consumers are planning to buy more cars and some other durables than were planned a year ago. A second installment of the excise tax cut of \$1 $\frac{3}{4}$ billion scheduled for next January also will provide added stimulus to consumer purchases.

A number of new and expanded programs are increasing Government expenditures and adding directly and indirectly to the flow of income to consumers. A 7-percent increase in regular monthly social security benefits, retroactive to January 1965, has added materially to consumer incomes in recent months. The continued effect of these measures will help to offset the impact on the consumer of an increase in social security taxes scheduled for January 1966. In the second half of 1966, benefit payments begin under the medicare program. Adding further to prospective job opportunities and to consumer incomes, legislation in 1965 provided new programs as well as means for increasing the effectiveness of existing programs. The programs affect housing, education, recreation, health, and beautification, and they provide aid to depressed areas through the Appalachian development program and job retraining programs.



A pickup in the rate of Government purchases of goods and services is now underway, due primarily to rising military expenditures. Since the end of 1962, combined Federal and State and local Government purchases of goods and services have been rising around \$1½ billion per quarter. Contributing most to the overall rise was the uptrend in spending by State and local Governments for schools, roads, and other facilities for a growing population. State and local purchases may accelerate some in 1966. Federal spending has been relatively stable since 1962 but the recent pickup is expected to continue in 1966. Pay increases for military and civilian employees will add to Government spending and consumer income, but the extent of the overall rise in Federal spending will depend largely on increases in defense spending.

Industrial production in the third quarter was up 7½ percent from a year earlier, employment increased by nearly 2 million workers, and business capital outlays also continued to rise. Scheduled expenditures for new plant and equipment in 1965 are 13½ percent above 1964. Substantial gains in business investment have led to significant increases in productive capacity, but apparently these increases have about kept pace with the growth in demand.

The uptrend in investment outlays is expected to continue in 1966. The favorable environment for investment stems from increased corporate profits, high level of use of productive capacity, and prospects for further demand expansion again in 1966. These factors are expected to provide the incentives and the ability to extend the rise in capital outlays well into next year. Residential construction activity has been at a high and relatively stable level since early 1964. Private nonfarm housing starts and new housing permits have been drifting downward, but activity is expected to increase some during 1966.

During the first 4 years of the present economic expansion, wholesale prices were virtually stable while consumer prices trended slowly upward at about 1.2 percent per year. From the third quarter of 1964 to the third quarter of 1965, wholesale prices rose 2.2 percent and consumer prices 1.3 percent. Much of the change in price activity this year can be traced to short-run factors such as temporarily reduced supplies of some farm products, particularly during the second quarter. Important factors point to a resumption of stable price trends; the rise in business investment has increased industrial capacity, and advances in wages have been matched by increases in productivity holding labor cost per unit of output stable.

GENERAL AGRICULTURAL SITUATION

Realized net farm income this year is expected to total around \$14 billion, over a billion dollars above 1964. This is the highest income level since 1952. Major economic forces contributing to the improved farm income situation include expanding markets, tighter supplies for some commodities, and a new farm program. Reduced production of red meats, particularly pork, and smaller

supplies of potatoes and some spring vegetables earlier this year, resulted in increased prices and larger incomes received by farmers. Prospects for continued growth in domestic and foreign markets, limited growth in red meat supplies, and a new farm program point to some further rise in realized net farm income in 1966.

Consumer spending for food during January-September jumped to a level more than 6 percent above a year earlier and is expected to continue rising through 1966 (table 3). The above-average gain was spurred by rapidly rising after-tax incomes and was characterized by growing demand for consumer services (such as for eating away from home). Prices paid by consumers for food accelerated early in 1965 and for the year may average nearly $2\frac{1}{2}$ percent above 1964 (table 3). Food consumption per capita in 1965 is slightly lower than the high level of a year earlier; utilization of crop products (especially fruit) per capita is running above a year earlier but that of livestock products (especially pork) is below. Prospects for 1966 include continued increases in per capita outlays by consumers for food; increased food services; a slower rise in retail food prices than this year; and little change in per capita food consumption.

Table 3.--Expenditures for food, and related data
1961 to date

Year	Food			Disposable personal income <u>3/</u>		Popu- lation July 1
	Expenditures		Retail Price Index <u>2/</u>	Total	Per capita	<u>4/</u>
	<u>1/</u>	<u>3/</u>				
	Total	Per capita				
	Bil. dol.	Dol.	1957-59=100	Bil. dol.	Dol.	Mil.
1961	73	396	102.6	364	1,983	183.8
1962	75	402	103.6	385	2,064	186.7
1963	77	407	105.1	404	2,132	189.4
1964	81	420	106.4	436	2,269	192.1
1965	<u>5/</u> 86	<u>5/</u> 439	<u>5/</u> 109.0	<u>5/</u> 463	<u>5/</u> 2,379	194.6

^{1/} Excludes alcoholic beverages. Series partly estimated by ERS.

^{2/} Bureau of Labor Statistics.

^{3/} U. S. Department of Commerce.

^{4/} Includes Armed Forces overseas. Bureau of the Census.

^{5/} Preliminary estimates by ERS.

Among the nonfoods, domestic use of cotton is expanding slightly this year, partly a consequence of 1964 legislation which permitted reduced prices to mills. Total cigarette consumption is rebounding from the reduced rates early last year and is expected to continue record-high into 1966.

Livestock Prices Higher;
Crops Lower

Prices received by farmers during 1965 are expected to average around 4 percent above a year earlier. Much of the rise reflects higher prices for cattle and hogs, although prices were higher earlier this year for poultry, potatoes, soybeans, and feed grains. Lower prices for wheat, cotton, and fruit moderated the gain from a year earlier. Prices received for livestock during 1966 likely will average slightly above 1965, partly offsetting prospective reductions in crop prices.

Prices received for livestock and products so far this year are 9 percent above a year earlier. Farmers cut pork production 8 percent and average prices received for hogs rose from the January low of \$15 to an August high of \$24 per hundredweight. This compares to a price range of \$14 to \$16 in 1964. Reduced pork supplies also contributed to higher prices received for competing meats such as beef and poultry. Prices received for cattle, which peaked at \$19 in 1964, averaged close to \$21 per hundredweight since May 1965. Per capita supplies of beef this year are indicated around 1 pound smaller than the 100 pounds available in 1964. Broiler prices advanced during 1965 despite substantial increases in supplies of poultry meat. Prices received for dairy products are edging up in 1965 and will continue rising in 1966.

Prices received by farmers for crops so far this year are 2 percent below a year earlier. Prices received for crops rose to their high for the year during the second quarter when supplies were tighter for potatoes and other vegetables and also for feed grains and soybeans. Lower prices received for crops during late 1965 and through 1966 will reflect lower loan levels for new-crop grains and cotton and increased production of grain, soybeans, citrus, and potatoes.

Livestock Production and
Marketings Little Changed

Output of livestock and products is indicated little changed from last year. In 1964, production rose to 113 percent of the 1957-59 level (table 4). Continued stability in the overall levels of livestock production and marketings is indicated for 1966. However, substantial changes are expected for some commodities. Pork production has been declining since late 1963, but farmers are likely to farrow more sows in the spring of 1966 leading to an increase in pork production in late 1966.

Continued moderate gains in output of other livestock products are expected about to offset reduced pork production this year and next. Beef production so far this year is up a shade from 1964 and some increase is expected again in 1966. Broiler production is running around a tenth above

a year earlier and prospective feed and product prices may encourage further gains in 1966. Turkey production is expected to continue increasing next year but little change is indicated for eggs and milk.

Table 4.--Farm production: Index numbers of total farm output, gross production of livestock and crops, United States 1/

(1957-59=100)				
Item	1962	1963	1964	1965 <u>2/</u>
Farm output	108	112	111	116
All livestock and livestock products <u>3/</u>	107	111	113	112
Meat animals	108	114	116	112
Dairy products	104	103	104	104
Poultry and eggs	111	115	118	122
All crops <u>3/</u>	107	112	109	117
Feed grains	100	110	97	114
Hay and forage	105	105	105	110
Food grains	98	102	114	119
Vegetables	108	108	106	110
Sugar crops	119	153	155	142
Cotton	121	125	124	123
Tobacco	134	135	129	116
Oil crops	123	128	128	157

1/ For historical data and explanation of indexes, see, "Changes in Farm Production and Efficiency", USDA Statistical Bulletin No. 233. 2/ Preliminary indexes for 1965 based on October 1965 "Crop Production" report and other releases of the Crop Reporting Board, SRS. 3/ Includes other products not included in the separate groups shown.

Economic Research and Statistical Reporting Services.

Crop Production Up
From Last Year

Crop production this year is indicated 7 percent above 1964 (table 4); cropland used by farmers is about the same but yields are higher. Feed grain production is up around 18 percent from last year's drought-reduced level, and soybean production is up 23 percent. Gains of 5 percent for wheat and 6 percent for hay are also contributing to the rise in total crop output. Cotton production is indicated little changed from a year earlier with rising yields about offsetting acreage reductions. Tobacco and sugar production are each lower than in 1964.

Carryover stocks of major crops--except cotton--at the beginning of the 1965-66 marketing season were below year-earlier levels. Rising export shipments and increased use of wheat for feed contributed to the decline of 82 million bushels in wheat stocks on July 1, 1965, from a year earlier. Wheat stocks next July 1 are again likely to fall below year-earlier levels, possibly by 70 million bushels; the 1965-crop wheat production is up 64 million bushels from a year earlier, but substantial further gains in feed use and exports are likely. Feed grain output in 1965 is indicated about 24 million tons above a year earlier. Feed grain exports are expected to rise to record levels and, with improved feed-livestock price ratios feeding rates will be higher. Even so, carryout stocks from the 1965 crop may rise around 5 million tons above the carryin.

Soybean crushings and exports are each indicated above those for the 1964 crop. But soybean acreage and yields are higher this year and the crop is estimated to be 162 million bushels above 1964. Consequently, carryout stocks may run around 100 million bushels on September 1, 1966--well above last year but not considered large relative to utilization. Stocks of upland cotton on August 1, 1965 were 14 million bales, up nearly 2 million from a year earlier. Utilization may rise slightly in 1965-66. Even so, a further sharp rise in the cotton carryover is indicated for 1966. Recent legislation is expected to sharply reduce cotton acreage for the 1966 crop from the 13.6 million acres for harvest this year.

Parity Index up From 1964

The index of prices paid by farmers, including interest, taxes and wage rates, was up about $2\frac{1}{2}$ percent so far this year from 1964. This was a somewhat greater increase than the trend of recent years. Prices are continuing to rise for items purchased for farm family living, as are those paid by urban consumers. Interest and taxes payable per acre are rising and farm wage rates are indicated 5 percent higher in 1965 than 1964. A rapid advance in wage rates took place in the second half of this year, when specialty crops requiring large amounts of seasonal labor were being harvested. Prices paid for production items are expected to average about 2 percent higher with about half the rise due to higher prices of feed and feeder livestock. Prospects for feed and for feeder livestock prices in 1966 point to a smaller increase next year than this in the index of prices paid by farmers.

Production Expenses

Resume Uptrend

Farm production expenses, are resuming their long-term uptrend after a small decline in 1964 (table 5). Current operating expenses account for about one-half of the rise; the value of purchased livestock is increasing sharply from the 1964 level and most other current expenses continue rising. Farm employment is still declining sharply, but this year's large increase in wage rates will result in a smaller decrease in total labor costs than the 6 percent decline of 1964. Increased purchases of capital goods is resulting in a step-up in depreciation; interest and taxes continue to rise along the trend of recent years.

Table 5.--Farm Production Expenses 1958-64,

(Million dollars)						
Year	Current operating expenses 1/	Hired labor	Depreciation	Taxes and interest	Net rent to nonfarm landlords 2/	Total
1958	15,395	2,842	4,011	1,827	1,161	25,236
1959	16,012	2,882	4,228	1,973	1,011	26,106
1960	16,007	2,864	4,237	2,127	1,007	26,342
1961	16,500	2,918	4,210	2,279	1,106	27,013
1962	17,715	2,902	4,340	2,440	1,129	28,526
1963	18,413	2,894	4,481	2,606	1,178	29,572
1964	18,010	2,708	4,655	2,782	1,094	29,249

1/ Excludes hired labor.

2/ Includes Government payments to nonfarm landlords.

U. S. Department of Agriculture.

Gross Income Rising

Cash receipts from marketing livestock products this year are expected to total around \$1 $\frac{3}{4}$ billion above the \$19.8 billion in 1964 and likely will increase further in 1966. This year, the volume of marketings is about the same as last but prices received are higher. Largest additions to receipts are indicated for hogs, beef cattle, and poultry products; receipts from marketing dairy products increased slightly.

Receipts for crops this year, including Government payments, are also above 1964. Decreases in cash receipts from marketing wheat, corn, tobacco, cotton, and fruit were largely offset by increased cash receipts from marketing soybeans, potatoes, and commercial vegetables. For next year, prices received will be lower, but with prospective increases in the volume of marketings and the level of Government payments, gross receipts for crops are expected to rise further from this year's level.

In total, cash receipts from marketings this year are running almost 5 percent larger than in 1964. With some further rise in Government payments, realized gross income this year may total around \$2 billion above 1964.

This year, rising expenses are offsetting about half the gain in gross income resulting in an increase of about \$1 billion in realized net farm income. For 1966, the expected rise in expenses is less than the prospective increase in gross income, pointing to some further rise in realized net farm income. With the declining number of farms, realized net income per farm this year is indicated over \$4,100 compared with \$3,727 last year. The uptrend is expected to continue into 1966.

Table 6.--Agricultural assets and liabilities on January 1, 1960-66 in current dollars

(Billion dollars)								
Year	Assets				Liabilities			
	Total	Real estate	Physical assets 1/	Financial 2/	Total	Real estate debt	Non-real estate debt 3/	Proprietors equities
1960	203.9	129.9	55.3	18.7	24.9	12.1	12.8	179.0
1961	204.3	131.4	54.4	18.5	26.2	12.8	13.4	178.1
1962	213.0	137.4	56.7	18.9	28.7	13.9	14.8	184.3
1963	221.0	142.8	58.4	19.8	31.8	15.2	16.6	189.2
1964	229.1	150.7	58.4	20.0	34.9	16.8	18.1	194.2
1965	237.8	159.4	57.3	21.1	37.5	18.9	18.6	200.3
1966P	253.2	170.0	61.4	21.8	41.1	21.1	20.0	212.1

1/ Includes livestock, machinery and motor vehicles, all crops stored on farms, and crops stored off farms as security for CCC loans, and household furnishings and equipment.

2/ Includes holdings of deposits and currency, United States savings bonds, and investments in cooperatives.

3/ Includes CCC loans.

p. Preliminary estimate.

U. S. Department of Agriculture.

Farm Assets and Net Worth Rising

Agricultural asset values are rising again this year, and at a rate noticeably higher than the trend of recent years (table 6). Much of this gain is again due to the continued rise in the value of farm real estate, but the value of crop and livestock inventories will also show large gains. On January 1, 1966, real estate is expected to comprise about 67 percent of total value of assets compared with 57 percent in 1950. Increased crop production this year will enlarge January 1 holdings of crops. The value of livestock holdings will be up sharply from last year's reduced level, due to higher prices. Machinery and motor vehicle assets will continue to rise. Financial assets are continuing their steady rise, mostly due to further growth of investments in co-operatives--50 percent from 1960 to 1965.

Farmers' debts are expected to amount to about 16.2 cents per dollar of total assets on January 1, 1966, up from 15.8 cents a year earlier and 12.1 cents in 1960. Real estate debt has been rising rapidly in recent years, and is expected to continue increasing. Real estate debt represents about 12 percent of the total value of farm real estate. Nonreal estate debt is rising more rapidly than in 1964. Farmers are using more short-term credit as their purchases of production and consumer goods increase. And some of the added crop inventory discussed above will be used as security for CCC loans.

FACTORS AFFECTING DEMAND FOR FARM PRODUCTS

U. S. income and employment is continuing to exhibit vigorous growth. The Gross National Product increased \$11 billion in the third quarter from the second quarter rate of \$665.9 billion (table 7). This was the 18th quarter of uninterrupted economic growth--the longest expansion of the postwar period (see chart). The growth in real output from the trough in the first quarter of 1961 has been larger than in any other postwar upswing with the exception of the 1949-53 expansion which included the Korean conflict. In the third quarter real Gross National Product was 26 percent above the trough. This compares with a 29 percent gain in the 1949-53 expansion, 13 percent in the 1954-57 expansion, and 12 percent in 1958-60.

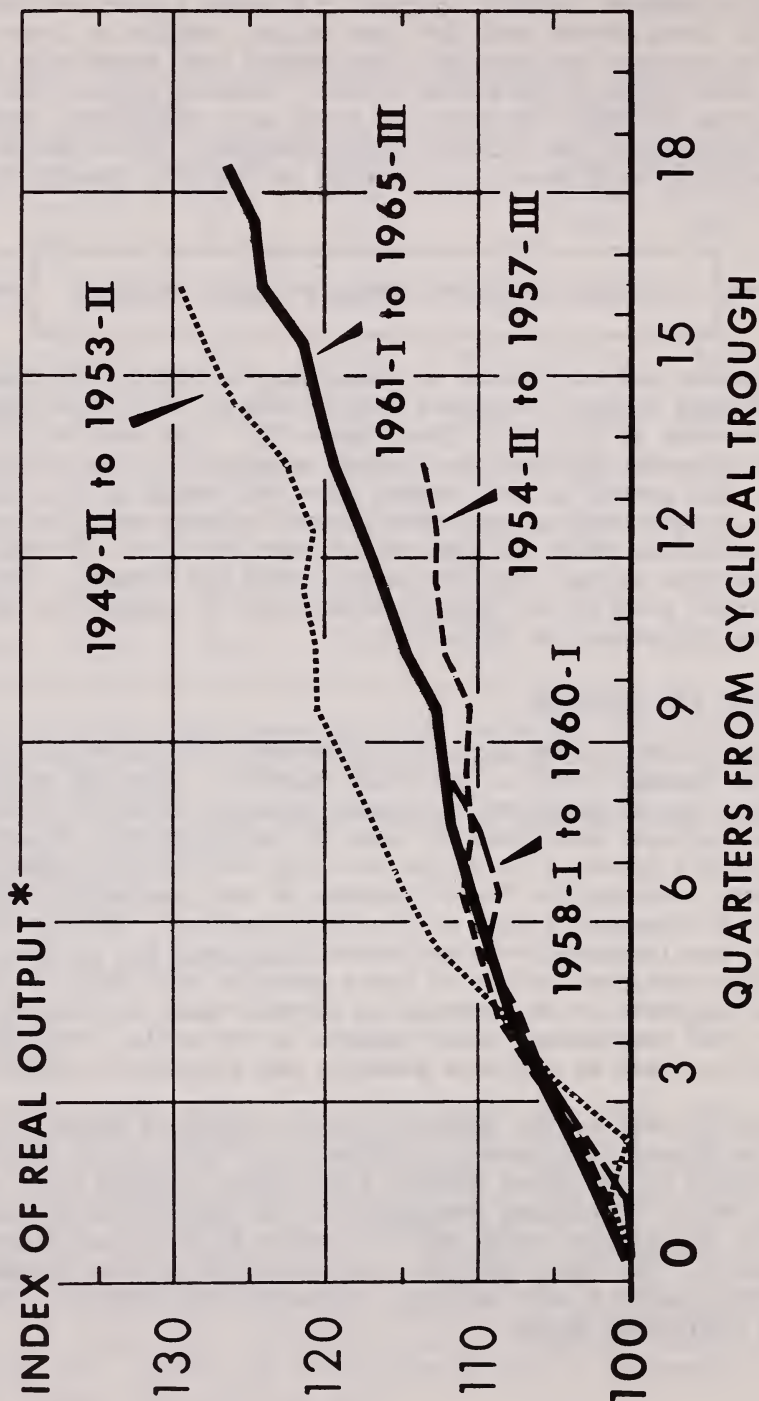
Consumer Income and Spending

Personal income, after seasonal adjustment, increased \$11.0 billion to \$535.9 billion (annual rate) in the third quarter. Wage and salary disbursements including the military pay increase, personal interest income, and Government transfer payments accounted for most of the increase. Congress recently passed a 7-percent increase in social security benefits retroactive to January 1965. Payments covering the first 8 months of the year added \$3½ billion (annual rate) to consumer income in the third quarter. Benefit payments are continuing at the increased rate and are adding about \$1½ billion per quarter to income. The continued effect of these measures will help to offset the impact on the consumer of an increase in payroll taxes in January 1966. In addition, as 1966 progresses, other changes in the social security laws will become effective, such as medicare benefits and structural changes in the laws.

Personal tax and nontax payments, which increased sharply in the second quarter due to larger than normal settlements on 1964 income tax liabilities, fell \$1.4 billion in the third quarter from second quarter level of \$66.0 billion (annual rate). Consumers responded to the resulting \$12.4 billion gain in July-September disposable income with a sizable \$7.8 billion increase in the rate of spending. The third quarter rate of \$432.2 billion (annual rate) was almost 7 percent above a year earlier. Spending for durables, nondurables, and services all registered gains.

GROWTH IN REAL GNP

From Cyclical Trough During Postwar Expansions



*REAL GNP IN 1958 DOLLARS ADJUSTED TO EQUAL 100 IN TROUGH QUARTERS OF EACH POSTWAR EXPANSION. U. S. DEPARTMENT OF COMMERCE.

About one-third of the above average gain in July-September disposable income flowed into personal saving. Personal saving as a percent of disposable income increased to 5.8 from 5.0 in the second quarter. This gain was due to the timing of the retroactive social security payment which probably had little direct effect on consumer spending in the third quarter.

Investment Demand Expands

Strong demand, a relatively high level of capacity utilization, and a large flow of internal funds continued to encourage producers to invest in plant and equipment in the third quarter. Business fixed investment increased 1.4 percent in the July-September period to a \$95.7 billion (annual rate). A recent OBE-SEC survey indicates that investment in new plant and equipment this year will be about $13\frac{1}{2}$ percent above the 1964 level. This would be slightly less than the 1963-64 increase. Manufacturing and transportation companies plan to increase their expenditures for new plant and equipment by the largest amount, with substantial increases scheduled in the nonferrous metal, machinery, motor vehicle, textile, and chemical industries.

The rate of inventory accumulation slowed from the second to the third quarter as the change in business inventories fell from a \$6.7 billion (annual rate) to \$6.1 billion. Much of the third quarter slowdown in the rate of accumulation was probably due to a reduction in strike-hedge inventories following the labor settlement in the steel industry. Excess steel inventories likely will be worked off with little impact on the total economy.

Outlays for residential construction declined in the third quarter by \$0.4 billion from the quarter before to \$27.6 billion, annual rate. Activity has been around this high level since the first quarter of 1964 when the peak of \$28.4 billion was reached. Housing starts have been drifting slowly downward since early 1964. In the third quarter 1.4 million private nonfarm housing units were started, seasonally adjusted annual rate, compared with 1.5 million in the last quarter and the recent high of 1.7 million in the first quarter of 1964.

Government Expenditures Rising

Government purchases of goods and services in July-September increased \$2.2 billion from the quarter before to a \$135.1 billion annual rate. Federal spending for goods and services, which had been relatively stable during the last half of 1964 and early 1965, increased \$1.4 billion, to a rate of \$67.3 billion. The third quarter increase in Federal spending was the result of increased defense spending, due especially to stepped up activity in Viet Nam and the military pay bill recently enacted by Congress. Further increases in defense spending are expected during the rest of 1965.

State and local Government purchases of goods and services increased \$0.8 billion from the second quarter level of \$67.0 billion, annual rate. This was less than increases experienced in recent quarters. However, no slowdown in State and local spending is expected in the foreseeable future since the need for schools, roads, hospitals, and civilian protection services is constantly increasing.

Table 7.--Other economic factors affecting agriculture (seasonally adjusted annual rates)

Item	Unit	1964				1965			
		III	IV	Year	:	I	II	:	III 1/
Gross national product	Bil. dol.	634.8	641.1	628.7		656.4	665.9		676.9
Personal income	Bil. dol.								
Disposable personal income 2/	Bil. dol.	499.1	507.1	495.0		516.6	524.9		535.9
Personal consumption expenditures	Bil. dol.	429.6	435.4	425.2		440.7	447.3		459.4
Durable	Bil. dol.	404.6	405.9	398.9		416.9	424.4		432.2
Nondurable	Bil. dol.	60.5	57.9	58.7		63.9	63.7		65.4
Services	Bil. dol.	179.8	180.9	177.5		183.0	187.6		191.0
Personal saving	Bil. dol.	164.3	167.1	162.6		170.0	173.1		175.9
Net government receipts	Bil. dol.	25.0	29.5	26.3		23.8	23.0		27.2
Government purchases	Bil. dol.	126.7	129.3	125.9		134.9	137.5		---
Deficit or surplus (on income and product account)	Bil. dol.	128.7	128.6	128.4		130.9	132.9		135.1
Gross private domestic investment	Bil. dol.	-2.1	.8	-2.4		3.9	4.7		---
Fixed investment	Bil. dol.	92.6	97.7	92.9		102.4	101.1		101.8
Change in business inventories	Bil. dol.	88.8	90.2	88.1		93.7	94.4		95.7
Expenditures for plant and equipment	Bil. dol.	3.8	7.5	4.8		8.7	6.7		6.1
Corporate profits (before taxes)	Bil. dol.	45.65	47.75	44.90		49.00	50.35		3/51.15
Net exports of goods and services	Bil. dol.	65.3	65.9	64.8		73.1	73.7		---
Balance of payments on regular transactions	Bil. dol.	8.8	8.9	8.6		6.2	7.5		7.8
Population 4/	Mil. dol.	-2,372	-6,204	-3,106		-3,120	1/476		---
GNP implicit price deflator	Millions	192.5	193.2	192.1		193.8	194.3		194.9
Per capita disposable personal income (1958 prices)	1958=100	109.0	109.6	108.9		109.8	110.7		111.1
	Dollars	2,134	2,146	2,116		2,159	2,173		2,218

1/ Preliminary.

2/ Excludes interest paid by consumers and net personal transfer to foreigners.

3/ Estimates based on anticipated capital expenditures as reported by business.

4/ Population of the United States including Armed Forces abroad. Annual data as of July 1; quarterly data centered in the middle of the period.

Departments of Commerce, Agriculture, and Securities and Exchange Commission.

Output and Employment

Industrial output recorded another healthy gain in the third quarter, increasing to 144 percent of the 1957-59 average. This was 1.5 percent above second quarter and over $7\frac{1}{2}$ percent above a year earlier. Production in manufacturing industries continued to expand, as did mining and utility output. However, with large increases in business investment adding to capacity, the rate of capacity utilization appears to be holding steady. If new orders flow into industry faster than production can meet them a backlog is built up which can exert pressure on prices. The ratio of unfilled orders to shipments in manufacturing industries is continuing about the same as a year earlier.

Manufacturing production rose 1.5 percent above the second quarter level of 143.2 (1957-59=100). Both durable and nondurable manufacturing output increased. There was some cutback in steel production in September after the settlement with the United Steel Workers on September 3. Some further reduction is anticipated in strike-hedge inventories. A cutback in steel inventories and a reduction in steel output could influence total output for a few months. However, with a strong demand for final products and a high level of steel consumption, working off strike-hedge steel inventories may not be a serious burden.

Employment has expanded with increases in demand and output. Seasonally adjusted civilian employment totaled 72.4 million in the third quarter, up $\frac{1}{2}$ million workers from the previous quarter and 2 million from a year earlier. The rate of unemployment edged down to 4.5 percent of the civilian labor force from 4.7 percent in the previous quarter. The unemployment rate for experienced wage and salary workers in the third quarter was 4.1 percent, considerably less than the rate for all workers.

Prices and Money Supply

There has been an ample supply of credit at relatively low interest rates throughout most of the current expansion. However, there has been some pressure on interest rates recently. An acceleration occurred in the demand for bank credit. The Nation's money supply averaged \$163.2 billion in the third quarter, up \$2.2 billion or 1.4 percent from the previous quarter and 3 percent above a year earlier. During the first half of the year the growth in the money supply was slower; advancing only 1 percent from the fourth quarter of 1964 to second quarter of 1965.

The current economic expansion had been marked by a remarkable record of stable price trends. During the first 4 years of the expansion wholesale prices were stable and retail prices trended upward about 1.2 percent per year. In recent months the overall level of wholesale prices has risen. Much of the increase was due to temporarily reduced supplies of some agricultural products. Prices of some industrial commodities also have increased but the increases have not been widespread. An indication of more level wholesale prices is the stability of labor cost per unit of output over the last year. Labor cost per unit of output in manufacturing, an important cost for most producers, was 99.9 (1957-59=100) in the third quarter compared with 99.8 a year earlier.

FOREIGN TRADE

The U. S. balance of payments improved considerably in the second quarter. There was a surplus of \$0.5 billion on regular transactions (seasonally adjusted annual rate) in the second quarter compared with a deficit of \$3.1 billion in the first quarter and with the year-earlier deficit of \$2.2 billion (table 8). Some of the gain was due to short-run factors which may not be fully present in the second half of this year. However, the balance of payments is expected to continue substantially improved from a year earlier in the second half of 1965.

A major factor improving the balance of payments in the second quarter was a substantial decline in the outflow of U. S. private capital. The outflow fell from the first quarter by more than \$5.0 billion (seasonally adjusted annual rate) to \$1.1 billion. Much of the decline reflected cooperation of bankers and businessmen with voluntary programs requested by the President on February 10, 1965. An increase in domestic demand for bank credit and a slow rise in bank reserves also may have contributed to a decline in foreign lending by banks. However, a shift in the movement of net foreign capital other than liquid funds from an inflow of \$1.1 billion (seasonally adjusted annual rate) in the first quarter to an outflow of \$0.9 billion in the second quarter, offset some of the improvement in the outflow of U. S. private capital.

Adding to the improved position in the balance of payments was an increase in net exports of goods and services in the second quarter of almost \$2 million, seasonally adjusted annual rate (table 8).

Exports of goods and services increased over 16 percent to \$40.3 billion (annual rate) and imports increased 13 percent to \$32.3 billion. Some increase in exports resulted from the timing of shipments following the first quarter dock strike. This affected exports more than imports. The net export position apparently improved further in the third quarter.

Agricultural Trade

Foreign demand for U. S. farm products during fiscal 1964-65 maintained commercial sales close to the \$4.5 billion level of a year earlier (table 9). With a small rise in sales assisted by Government programs, the total value of exports in the fiscal year just ended was unchanged from the high level of \$6.1 billion a year earlier. There were sharp gains in exports of feed grains, soybeans, cottonseed and soybean oils, oilcake and meal, and smaller increases for inedible tallow. However, these gains were largely offset by substantial declines in exports of wheat and flour, cotton, and tobacco. Although, exports of wheat and wheat products were down, they totaled 728 million bushels--a level exceeded only in the preceding year when exports rose to 859 million bushels (wheat equivalent) in response to a reduced harvest in USSR, Europe, and Japan.

Table 8.--Foreign transactions of the United States, 1963-65

(Billion dollars, seasonally adjusted annual rates)

Item	1963				1964				1965			
	Year	I	II	III	IV	I	II	III	IV	I	II	III
Receipts from foreigners, exports of goods and services	32.4	37.0	36.3	36.0	37.3	38.4	34.7	40.3				
Payments to foreigners	32.4	37.0	36.3	36.0	37.3	38.4	34.7	40.3				
Imports of goods and services	26.4	28.5	27.5	28.2	28.5	29.5	28.6	32.3				
Transfers to foreigners, net	2.8	2.7	2.7	2.9	2.7	2.7	2.6	2.9				
Personal	.6	.6	.6	.5	.5	.6	.6	.6				
Government	2.2	2.2	2.1	2.3	2.1	2.1	2.0	2.3				
Net foreign investment <u>1/</u>	3.2	5.8	6.1	4.8	6.1	6.2	3.5	5.1				
U. S. Government capital, net <u>2/</u>	1.9	1.7	1.4	1.5	1.9	2.3	1.4	2.0				
U. S. private capital, net	4.5	6.5	5.3	5.4	6.3	8.9	6.1	1.1				
Foreign capital, net <u>3/</u>	-.3	-.4	-.1	-.4	-.8	-.4	-1.1	-.9				
Errors and unrecorded transactions	.4	1.2	1.2	.6	1.2	1.7	4/	.7				
Balance of payments <u>5/</u>	-3.3	-3.1	-1.7	-2.2	-2.4	-6.2	-3.1	.5				

1/ Net foreign investment for the 2 quarters of 1965 reflect revised export data not yet incorporated in the National Income and Product Accounts published by the U. S. Department of Commerce.

2/ Includes all outflows of Government capital not included in Government transfers to foreigners above.

3/ Other than liquid funds; includes miscellaneous Government nonliquid liabilities.

4/ Less than \$0.05 billion.

5/ On regular transactions, surplus (+) or deficit (-).

U. S. Department of Commerce and Council of Economic Advisers.

The value of agricultural exports in the current fiscal year is expected to exceed the high level of the past 2 years; slightly lower prices in prospect likely will be more than offset by an increased volume of shipments, particularly for commercial sales. The current fiscal year was heralded by shipments of grains, fruits, and vegetables substantially above a year earlier. Shipments of cotton and oilseed products were below year-earlier rates but shipments are expected to pick up as the 1965-66 marketing seasons for these commodities unfold.

Table 9.--Value of agricultural imports and exports
1960-65

Fiscal year ending June 30	Agricultural exports			Agricultural	Agricultural
	Total	Commer- cial sales	Government programs 1/	imports	trade balance
	Bil. dol.	Bil. dol.	Bil. dol.	Bil. dol.	Bil. dol.
1960	4.5	3.2	1.3	4.0	0.5
1961	4.9	3.4	1.5	3.6	1.3
1962	5.1	3.5	1.6	3.8	1.3
1963	5.1	3.5	1.6	3.9	1.2
1964	6.1	4.5	1.6	4.1	2.0
1965	6.1	4.4	1.7	4.0	2.1

1/ Includes titles I, II, III, IV of Public Law 480 and includes AID programs.

U. S. Department of Agriculture.

Imports of agricultural products declined slightly during fiscal 1964-65 to \$4.0 billion from \$4.1 a year earlier (table 9). Declines were recorded not only for commodities which partially compete with those produced in the United States such as beef, cotton, and sugar, but also for complementary imports such as coffee, tea, silk, hard fibers, and carpet wool. Imports in the current fiscal year likely will hold around last year's level. And with an indicated advance in the value of export shipments, the balance of trade for farm products is expected to rise slightly in fiscal 1965-66 from the \$2.1 billion for the previous year.

SOURCES AND USES OF AGRICULTURAL PRODUCTION

by Valerie Lowe

The 1958 Input-Output study recently published by the U. S. Department of Commerce 1/ provides new insights into the relationship of the agricultural sector with itself and with the rest of the economy. The accompanying chart presents information derived from this study of particular interest to persons in agriculture. The total value of agricultural production is divided into wedges in the left-hand circle of the chart to show the composition of inputs. The right-hand circle divides the same total production into wedges which show the relative proportions purchased by different sectors.

The unshaded part of the input circle represents goods and services which are used by agriculture. The shaded area, which can also be labeled "Value Added", shows the proportion of total value originating in agriculture in the process of combining and operating on its intermediate inputs. Gross National Income is the sum of Value Added by agriculture and Value Added by all other sectors of the economy, and is equal to Gross National Product. Value Added by agriculture is made up of total net income of farm proprietors excluding Government payments, wages paid to domestic farm workers, tax and interest payments made by farm proprietors, and depreciation on capital equipment owned by farm operators. Government payments are treated as subsidies and thus are excluded from Value Added. Wages paid to foreigners, treated as imports of services, are included in the input wedge labeled "other".

The large wedge labeled "Agriculture", which is the same size in each circle, and represents 26 percent of the total production of Agriculture, is made up of products such as seed, feeder livestock, and unprocessed feed, which are produced by agriculture for use in agriculture. Real Estate and Rental input is made up of total rent paid to nonfarm landlords and rent paid to other farmers. It does not include imputation for the value of land and buildings owned by the farm operator. The input from Trade, Transportation, and Warehousing represents the cost to the farmer of services performed by these industries on the products he buys, and includes the cost of sales taxes, and excise taxes on transportation and trade.

Output of agriculture which is purchased by intermediate sectors is represented by the unshaded portion of the output circle. The Food and Kindred Products industry, which includes feed processing as well as food processing, accounts for the largest portion (40 percent), with agriculture purchasing from itself the next largest share, and small proportions going to Tobacco manufacturers, Textile manufacturers, and other intermediate purchasers.

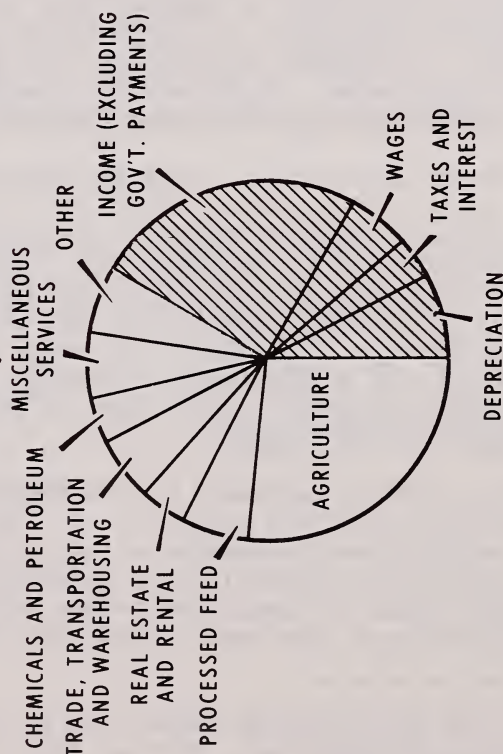
1/ "Interindustry Structure of the United States", U. S. Dept. of Commerce, published in Survey of Current Business Nov., 1964 and Sept., 1965.

THE AGRICULTURAL SECTOR

1958 Interindustry Relations Study *

INPUT TO AGRICULTURE

OUTPUT OF AGRICULTURE



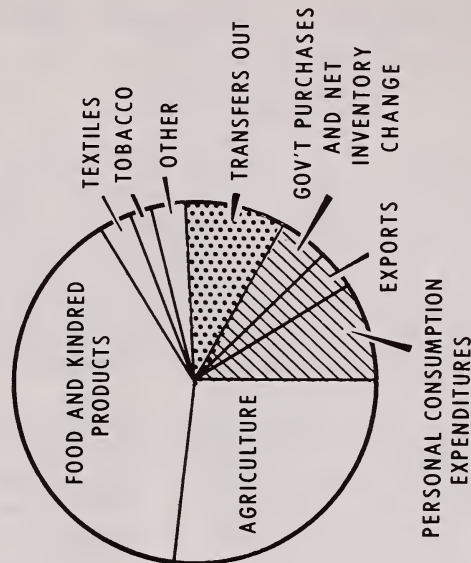
Intermediate inputs

Gross national income originating in agriculture

Intermediate output

Output purchased by final demand sectors

Nonagricultural output produced on farms



* U. S. DEPARTMENTS OF COMMERCE AND AGRICULTURE.

Goods and services produced and sold by farmers which are similar to or indistinguishable from products of other industries are included in the shaded wedge labeled "Transfers out". Since they are defined to be primary products of industries, and since one requirement of input-output analysis is that no product can be produced by more than one industry, these items are "transferred" to their primary industries. Examples are: Processed milk, farm-slaughtered meats, dehydrated fruits and vegetables, and sugar cane sirup, which are transferred to food and kindred products; forest products, which are transferred to the forestry sector; and, the imputed rental value of owner occupied farm dwellings, and rent paid by farmers, which are transferred to the real estate and rental sector.

About 17 percent of farm output goes directly into final demand. This is shown by the remaining shaded area in the chart, which includes consumer purchases of farm products, farm products consumed directly in farm households, Government purchases, exports, and inventories held by Government, farmers, or businesses.

CURRENT COMMODITY SITUATION

LIVESTOCK AND LIVESTOCK PRODUCTS

Meat Animals

Red meat consumption in 1965 is expected to average 6 or 7 pounds less per person than the 175 pounds in 1964 and some further decline is in prospect for next year. The decrease this year is due mainly to a reduction of 5 pounds in pork consumption. Lamb and mutton consumption per person is expected to be down to a low of 3.8 pounds, compared with 4.2 pounds in 1964. Beef production will be up a little from 1964, but because of population growth, consumption per person will total slightly over 99 pounds, down from 100 pounds last year. Per capita veal consumption will average slightly over 5 pounds, the same as in 1964.

The number of cattle and calves is declining this year for the first time since 1958. Cattle and calf slaughter in 1965 will be up about 4 percent. This increase, along with only a slight offsetting increase in the calf crop, will lead to over a million head decline in the number of cattle and calves on farms by year-end.

Fed cattle prices have been averaging above a year earlier throughout 1965. The higher prices result from lighter average weights, sharply reduced pork production and continued stronger consumer demand. On October 1, there were 7 percent more cattle on feed than a year earlier. The number of cattle on feed weighing more than 900 pounds was up 4 percent. In addition, cattle feeders said they plan to market 5 percent more animals in October-December this year than a year earlier. Thus, feedlot marketings in coming months may be large enough to exert some downward price pressure. The decline in prices, however, is expected to be slight unless marketings are bunched.

The feeder cattle supply at the beginning of 1966 likely will be much the same as the year before. However, unlike a year earlier, there will be more steers and fewer heifers. Feeding margins are expected to be attractive and cattle feeders will try to maintain lot capacity. Therefore, fed cattle marketings next year are expected to be as large or larger than this year. However, any increase in fed beef is likely to be partly offset by a decline in nonfed beef production. With only a modest increase in beef supplies and a further reduction in other red meat supplies, fed cattle prices likely will continue strong during most months of the year.

Hog slaughter in 1965 is expected to be down about 9 percent from 1964. Hog prices rose sharply this year in response to supply reductions, particularly, after April. Hog prices last summer reached the highest level in more than a decade. The peak in August was \$24.67 per 100 pounds, more than \$7.00 above the 1964 high. Prices are expected to remain above year-earlier levels for the rest of this year and well into 1966.

Hog producers apparently are beginning to end the downturn in production that started in late 1963. Hog prices after mid-1966, therefore, will depend largely on how quickly the production expansion progresses and on how large it becomes. A modest increase in farrowings in the late spring next year is the most likely prospect. This would bring only a slight pickup in slaughter by late next year, and prices would decline only slightly. However, if producers increase late spring and fall farrowings substantially, prices would likely be down sharply by late 1966 and in 1967.

Slaughter of sheep and lambs in 1965 is down about 10 percent from 1964. Lamb prices are the highest in many years and likely will average 10-12 percent above the \$19.90 per 100 pounds received in 1964. Slaughter is expected to continue at low levels through 1966 and prices are likely to average above a year earlier, especially during the first part of the year. The sharp drop in slaughter this year slowed or halted the reduction in sheep and lamb numbers. Some increase in breeding stock may be underway.

Dairy Products

Milk production in 1966 is likely to be about 126 billion pounds, compared with the 125.5 billion pounds expected this year. Farm marketings will increase more than production and a continued gain in commercial demand is expected. However, marketings will again exceed commercial use, so about 6.5 billion pounds (milk equivalent) of dairy products are expected to move to the CCC or be exported under the Payment-In-Kind (PIK) Program, about the same as in 1965. These estimates assume continuation of dairy price supports to farmers at 75 percent of parity, and existing Government export programs.

Cash receipts from farm sales of milk and cream next year are likely to rise above this year's record high, due to slight increases in volume of marketings and prices. Cash receipts in 1965 are expected to reach about \$5.1 billion compared with \$5.0 billion last year. Increases in farm prices from 1964 more than offset a lower volume of sales.

In 1965, farm prices for milk at wholesale may average about \$4.23 per 100 pounds, up 7 cents. Manufacturing trade prices will likely average about \$3.33. The 1965-66 price support level is \$3.24. The parity index, which is used for calculating the support levels for milk and butterfat, has risen about 1 percent since this year's supports were announced last spring. Some further rise is likely by next April, the beginning of the next marketing year.

Milk production during the first 9 months of 1965 was 0.2 percent below a year earlier. Milk cow numbers declined 3 percent from a year earlier, a continuing downtrend. Milk output per cow is expected to gain about 2.8 percent from 1964 and may reach 8,100 pounds in 1965. A further decline in milk cow numbers is in prospect next year, but anticipated gains in output per cow are expected to raise milk production slightly above the 1965 level.

Imports of dairy products this year are expected to be above the 1964 level of 830 million pounds (milk equivalent) and about as much as the 1963 postwar high of 915 million. A further rise is likely in 1966--chiefly in several nonquota products--due to relatively favorable U.S. prices and large world milk supplies.

Domestic use of milk (civilian and military combined) this year is expected to be about the same as the 122.2 billion pounds (milk equivalent) in 1964. Increased sales of fluid milk items and of most manufactured dairy products are offset by lower donations of Government-purchased dairy products to welfare and school lunch programs because of limited supplies and the usual downtrend in farm use of home-produced milk.

This year, per capita civilian disappearance of milk in all forms fell about $1\frac{1}{2}$ percent from 1964--from 628 pounds to 619. Some further decline is likely in 1966, in line with the 1 percent average from 1957 to 1963. However, total consumption is expected to increase slightly, due to rising population.

Because of the decline in farm marketings in 1965 and increase in commercial use, Government removals--CCC purchases and PIK exports--are expected to be about $1\frac{1}{4}$ billion pounds (milk equivalent) below the 7.7 billion pounds in 1964. Purchases (delivery basis) and exports under PIK this year may average 5 percent of milkfat produced and 10 percent of milk solids-not-fat.

Commercial and Government stocks of dairy products dropped further during 1965 and are expected to total about 4.7 billion pounds (milk equivalent) by December 31--compared with 5.3 billion pounds a year earlier. Year-end stocks in 1966 are not expected to change much from those expected at the end of this year.

Poultry and Eggs

Egg production next year is likely to gain some from the 179 million cases estimated for 1965. The increase, however, may not be large enough to arrest the decline in per capita egg consumption. Output probably will be a little below 1965 levels in the first half and higher in the second half. Egg prices are likely to open the year substantially above and close the year below the 1965 levels. For the year, prices received by producers may average close to the 33 cents per dozen in prospect this year.

Reduced egg production in the first half of 1966 is expected to result from a smaller national laying flock; the rate of lay may continue upward. The number of layers on farms on October 1, at 300 million, was down 2 million from a year earlier. Over the next several months, layer members may fall further below a year earlier because flocks now contain a larger proportion of older birds than last fall and because the number of replacement pullets not yet laying on October 1 was down 7 million from a year earlier.

Egg prices through the winter are likely to average much above the depressed price of a year earlier. After that prices probably will show a sharp seasonal decline and next spring may average about the same as in the spring of 1965.

Egg production in the second half of 1966 will be influenced by the number of chicks hatched for laying flock replacements over the next several months. Higher egg prices this fall and winter, together with lower feed prices, are expected to stimulate an interest in expanding egg production, thus encouraging increased hatchings late in 1965 and early in 1966. This likely will result in expanded and more productive laying flocks and increased production in the second half of 1966. Such an expansion probably would limit the seasonal rise in egg prices in the second half of 1966, resulting in prices below the 1965 level by the end of 1966.

Broiler production probably will keep increasing through most of 1966. Substantially larger output in the first half of 1966 is likely to result from the rapid buildup underway in hatchery supply flocks as well as by the prospect for lower feed prices and relatively high red meat prices. The indicated size of the Nation's hatchery supply flock for January-April 1966 is up 10 percent from a year earlier; in July-September 1965 it was up only 2 percent.

As in all of 1965, demand for broilers probably will benefit from shrinking red meat supplies, especially pork, at least through the first half of 1966, and from anticipated further gains in overall economic activity. Nevertheless, the first half production may be so large that broiler prices will average below the year before. These lower prices, in turn, may slow the growth in broiler production late next year. Late in 1966, broilers may have to face increasing competition from expanding red meat production.

Turkey prices for 1965 probably are averaging high enough in relation to feed costs to encourage a sizable expansion in turkey production in 1966

from the 103.7 million birds raised this year. Much of the increase next year may occur in January-August marketings, before the main marketing season. Turkey prices to producers in 1966 probably will average lower than the 22 cents per pound expected this year. In October, owners of turkey breeder flocks in 15 States reported plans to keep 5 percent more breeder hens at the beginning of the 1966 hatching season than in 1965. If breeder flocks increase much, they could easily support the expected expansion in production.

Wool

World wool prices have strengthened in recent months after trending downward during most of 1964 and the first half of 1965. Prices during the remainder of 1965 probably will continue firm and during 1966 will likely average near or slightly above 1965 levels. This will result from a continued recovery in world consumption in 1966 from early 1965 levels and slightly smaller production in the 1965-66 marketing year. World consumption in 1965 is likely to be down from 1964 even though it has shown some recovery during the year. This recovery is expected to continue into 1966. World production during the 1965-66 marketing year is expected to be down about 1 percent from a year earlier, primarily because of drought conditions in Australia and unfavorable climatic conditions in South Africa. Production is also expected to drop in the United States.

In the United States, wool prices in 1966 will likely average about the same as those received this year. Prices remained relatively firm in 1965 and are expected to stay firm in 1966 because of the slight advance in world wool prices and a high level of U.S. textile mill activity. Also, shorn wool production is expected to show a slight further decline in 1966 because of a continued slight decline in sheep numbers.

The 1965 average shorn wool price received by U.S. producers is expected to average about 10 percent below the 53.2 cents per pound, grease basis, received in 1964. Prices have strengthened slightly in recent months, but the September 1965 price was 5 percent below the same month in 1964.

Wool legislation has been enacted for the 1966 through 1969 marketing years. New legislation amends the National Wool Act of 1954 and revises the method for determining the support price for shorn wool, by taking into consideration prices paid by farmers. The support price will probably be 65 cents per pound for 1966. The shorn wool incentive level for each marketing year from 1955 to 1965 was 62 cents per pound.

U.S. apparel wool mill use likely will total 265-270 million pounds in 1966. This will be about the same as that expected for 1965, but would be about 13 to 15 percent above the 234 million pounds used in 1964. Use is expected to continue high in 1966 because of steady wool prices and continued expansion in general economic activity in prospect for 1966. A high level of use is indicated also by the downward trend in the ratio of inventories to unfilled orders for apparel fabric. The ratio has fallen because of the increasing volume of unfilled orders, and at the end of July, the ratio was at the lowest level since data became available in 1960.

Imports of apparel wool textile products during 1965 likely will total a record 75-80 million pounds, on a raw wool equivalent basis. This would be up from the previous high of 72.5 million pounds in 1963 and the 61.3 million in 1964. Imports for nearly all general categories are expected to be higher in 1965. For January-August 1965, imports were up 31 percent from a year earlier. Imports of woven fabrics, the largest category, were up 25 percent; imports of wool blankets rose 44 percent, and those of tops and advanced wool more than doubled.

Dutiable raw wool imports during 1966 are expected to total 140-145 million pounds, clean content. This would be about the same as estimates for 1965, but up from 98 million pounds in 1964. Imports will likely remain at a high level next year because of the high rate of apparel wool mill use and a further decline in U.S. wool production.

Mill use of carpet wool in 1966 is estimated at around 105-110 million pounds, scoured basis, about the same as expected in 1965. However, this would be down from 122 million pounds in 1964 and would be the least since 1951. Consumption of carpet wool has been declining because of relatively high prices and increasing competition from man-made fibers. Lower prices for carpet wool during 1965, however, may stimulate the use of carpet wool, and consumption in 1966 may total near the 1965 level.

CROPS

Wheat

The wheat supply for the 1965-66 marketing year is estimated at 2,175 million bushels based on the October crop report. Total disappearance during the current year is expected to exceed production for the fifth consecutive year. As a result, carryover stocks on June 30, 1966, may decline by at least 70 million bushels from the 818-million beginning carryover.

Exports are estimated at 750 million bushels for 1965-66; however, the total would be higher if they were to continue for the year at the July-September rate. During July-September 1965, exports ran at a high level, with commercial shipments substantially above a year earlier. Feeding of wheat is expected to increase in 1965-66 to around 100 million bushels, pushing domestic disappearance to an estimated 675 million bushels. During July-September, feed grain prices were above a year earlier while wheat prices averaged about the same. With this closer price relationship, feeding of wheat during this period rose sharply from the year earlier level. In 1964-65, about 70 million bushels were fed compared with the 1958-62 average of 42 million.

During the 1964-65 marketing year, wheat prices averaged \$1.37 per bushel, 7 cents over the national average loan. However, prices did not follow a normal seasonal pattern. They were highest during the summer and fall. From December to June, they declined; under a normal seasonal price pattern this would have been the period of highest prices. Prices this year seem to be following last

year's pattern. Farmers have again been withholding wheat from the market, helping to strengthen prices. This, along with the expected heavy disappearance, is likely to maintain the season-average price received by farmers in 1965-66 slightly above the national average loan rate of \$1.25 per bushel.

The Food and Agriculture Act of 1965, recently signed into law, continues the voluntary certificate-type program for the 1966 through 1969 crops. The program for 1966 will be quite similar to the present program. Price support loans, at a national average of \$1.25 per bushel for the 1966 crop, will be offered to producers who comply with their allotments. Marketing certificates valued at the difference between the loan level and the parity price will be issued to participating farmers on about 45 percent of normal production. Parity was \$2.56 per bushel in October 1965 but could change by the time the official determination must be made in June 1966. Domestic food processors will be required to purchase certificates valued at 75 cents per bushel, the same as in 1965-66, the remainder of the certificate value to be met with Government funds.

The 1965 world wheat crop is slightly smaller than the record 1964 crop. The decline is mainly in the USSR and Mainland China, 2 of the 3 largest producers. Free world output, which accounts for about two-thirds of world wheat production, is slightly above last year's record. As a result of this imbalance in world production and consumption, world wheat trade may rise to the 1963-64 record level of 2.1 billion bushels. The USSR has purchased or contracted to purchase about 350 million bushels of wheat out of free world supplies and Communist China about 175 million bushels.

Rice

The rice supply in 1965-66 was estimated at 83.4 million cwt. (rough basis) in October. This is the most since 1956-57 and results entirely from the big 1965 crop of 75.5 million cwt., since beginning stocks were at the low level of recent years.

Domestic disappearance is expected to be as large as a year earlier, 31.0 million cwt.. Exports may exceed last year's record level, establishing a new record of over 43 million cwt.. The expected increase in exports could result entirely from heavier commercial sales. In 1964-65, rice exports totaled 42.5 million cwt., with commercial sales accounting for 25.0 million. Based on an expected total disappearance of about 74.5 million cwt., the carry-over of rice on July 31, 1966, may be around 9 million cwt.. This would be slightly above that of the last 4 years but slightly below the 1958-62 average of 10.2 million cwt..

The national average price-support loan rate for 1965-crop rice is \$4.50 per cwt.. Prices received by farmers during 1965-66 are likely to average somewhat above this loan rate.

Feed Grains

Record feed grain production this year, although accompanied by smaller carryover from last year, has increased the feed grain supply to 217 million

tons, 10 million more than last year, but about 5 million below the 1959-63 average. In addition to the larger feed grain supply, wheat feeding is expected to continue heavy in 1965-66 and larger soybean meal production is expected to result in a larger high-protein feed supply. The supply of all feed concentrates is expected to total about 250 million tons, 10 million more than last year, but slightly below average.

Domestic use of feed grains is expected to increase in 1965-66 from the level of the past 2 or 3 years as a result of lower feed grain prices and higher livestock-feed price ratios. Lower quality corn in areas of the Midwest may also increase corn utilization. Exports are expected to increase by another 2 million tons in 1965-66, to over 23 million. The record 1965 feed grain production, however, is expected to be around 5 million tons above total utilization. This would leave an ending carryover of about 60 million tons.

The Food and Agriculture Act of 1965, will have an important bearing on the outlook for feed during the next 4 or 5 years. The Act provides for a feed grain program for 1966 through 1969, that is similar to the programs in effect during the last 5 years. More latitude is provided the Secretary, in determining program provisions, including authority to vary the price support payments and to pay price support payments on all or part of the permitted acreage of participants. The Secretary is also authorized to permit substitution between wheat and feed grains, the planting of certain crops on diverted acreage, and soybeans on permitted feed grain acreage without loss of price support payments.

The 1965-66 corn supply is estimated at 5,340 million bushels, 262 million more than last year. The record crop this year is expected to result in an increase in the carryover on October 1, 1966, by around 10 percent above the 1,160 million bushels carried over this year. The sorghum grain and oat supplies are up 7 percent, while the barley supply is down about 4 percent.

Feed grain prices are expected to be somewhat below the 1964-65 level. In 1964-65, feed grain prices averaged 6 percent above a year earlier and about 16 percent above the postwar low of 1960-61. Lower prices are in prospect for 1965-66 in view of the much larger production, lower quality corn in the Corn Belt, and the lower loan rates. CCC sales of corn and sorghum grain are expected to be smaller than in 1964-65, and market prices of these grains are not expected to advance with the CCC sale price as they did last year.

Larger supplies and lower prices of high-protein feeds also are in prospect for 1965-66. The record 1965 soybean crop will bring a substantial increase in production of soybean meal, probably increasing the quantity available for domestic feeding from about 9.2 million tons this year to around 9.8 million in 1965-66. Exports of soybean meal also are expected to increase somewhat from the record 2.0 million tons exported in 1964-65. The larger supply of soybean meal is expected to bring lower prices for soybean meal as well as for high-protein feeds generally.

The 1965-66 hay supply is about 3 percent larger than last year with the record-high production more than offsetting the smaller carryover. The larger hay supplies in the Western Corn Belt, the South, and a number of Western States has resulted in little lower prices in those areas. On the other hand, hay supplies are again short in the North Eastern States and smaller in the Eastern Corn Belt. Prices continue to be relatively high in those areas.

Oilseeds, Fats and Oils

The supply of edible fats, oils, and oilseeds during the 1965-66 marketing year that started October 1 is forecast at a record-high 17.2 billion pounds (oil equivalent of oilseeds). This is $5\frac{1}{2}$ percent above the 16.3 billion pounds available last year and slightly above the previous record of 1963-64. The increase is due to the record 1965 soybean crop, which will more than offset declines in starting stocks of food fats and the prospective reduction in lard output. While a further rise in domestic use and exports is in prospect, carryover stocks on September 30, 1966, probably will rise above this year due to some buildup in soybean stocks.

Domestic disappearance of edible fats and oils in 1965-66 probably will rise about in line with population growth--requiring an additional 125-150 million pounds (oil equivalent to around 12 million bushels of soybeans). This would leave approximately 7 billion pounds (oil equivalent of food fats, oils, and oilseeds) available for export and carryout stocks in 1965-66 compared with 6.1 billion during 1964-65.

Exports of edible fats and oils (including the oil equivalent of soybeans) through September 1966 are forecast at around 5.2 billion pounds, up slightly from 1964-65 as increased shipments of soybeans will more than offset declines in edible animal fats. Cottonseed and soybean oil exports are projected at around 2.0 billion pounds, about the same as in 1964-65. Such a total export volume would account for about one-third of the 1965-66 U.S. output of these commodities.

Supplies of soybeans during the 1965-66 marketing year that started September 1 are estimated at a record 892 million bushels compared with 767 million in 1964-65. Based on October 1 conditions, the 1965 crop was estimated at 862 million bushels, 23 percent above the 1964 and 1963 crops of 700 million bushels. Soybean acreage harvested for beans is up 13 percent and yield prospects, at 24.9 bushels per acre, compared with 22.8 bushels in 1964.

Soybean crushings are forecast at a record 515 million bushels, nearly 8 percent above the 479 million in 1964-65. The industry's processing capacity for 1965-66 is estimated at 600 million bushels. Soybean exports are also forecast at a high of 230 million bushels, 8 percent above the previous year's record. Based on the crushing and export estimates and allowing 50 million bushels for seed, feed, and waste, carryover stocks of soybeans next August 31 will be about 100 million bushels compared with 30 million this year. While this would be a new peak in carryover (the previous record was 88 million bushels in 1959), it would be only enough to satisfy about 6 weeks' requirement for crushing and export.

The price received by farmers for 1956-crop soybeans is expected to average slightly above the support price of \$2.25 per bushel compared with a price received of \$2.66 for the 1964 crop. Because of the delay in harvest in the early part of this season due to wet weather, prices to soybean producers averaged a little above support--\$2.33 per bushel in September-October. With the big crop and prices near the loan level, many farmers are storing soybeans and placing large quantities under CCC loan. Last year, farmers sold their crop early--three-fourths of the 1964 crop had moved off farms by January 1, 1965.

Fruit

Further expansion in consumer demand for fresh and processed fruit in 1966 is expected, mainly because of population growth and income gain. Increased citrus supplies until mid-1966 are in prospect in view of the expected moderate increase in the 1965-66 citrus crop and the current heavier carryover stocks of processed citrus. But prospective supplies of deciduous fruits through the first half of 1966 are down somewhat because of decreased 1965 canned and frozen packs. Over the next few years, deciduous production is expected to trend upward about in line with population growth, and that of citrus fruit at a faster rate, assuming favorable weather.

Export prospects for fresh and processed fruits in 1965-66 appear generally favorable. Gains are expected in fresh citrus and winter pears, in dried prunes and raisins, and in processed citrus juices. The reasons are generally larger U. S. supplies, and in some cases reduced U. S. prices and decreased foreign supplies. Apple exports may match the large 1964-65 volume. But exports of canned noncitrus fruits probably will be down somewhat because of the lighter 1965 packs of canned peaches and fruit cocktail, the usual leaders.

Prospective 1965-66 citrus production is up moderately, denoting a further gain over the relatively low post-freeze volume in 1963-64. Increases are expected in all principal citrus States, with the largest gains in Florida. Here, orange production is expected to be up 6 percent, and that of grapefruit 7 percent. The many young trees not yet bearing and the older trees still increasing in bearing capacity, especially in Florida and Texas, constitute the potential for mounting production over the next few years.

Harvest of the citrus crop was well underway by early November, especially in Florida. Here, early-season fresh market movement of grapefruit was considerably heavier than last year when the hurricane delayed early season movement. Movement of oranges also was up somewhat, but was slower than grapefruit in attaining seasonally large volume. Prices for early-season sales of Florida oranges and grapefruit at shipping points and on the principal auctions averaged somewhat below year-earlier levels.

Increased output of processed citrus fruits is expected to result from the heavier 1965-66 crops. In Florida, packers' stocks of principal frozen and canned items are much larger than a year ago. So total supplies probably will be up substantially. Retail prices are now much below a year ago.

Production of noncitrus fruits (mostly deciduous) in 1966 may not be greatly different from the near-record 1965 crop, assuming generally favorable weather. But production of some important fruits may vary considerably. Substantial increases are expected for Bartlett pears, California clingstone peaches, Pacific Northwest prunes, and cherries, for which 1965 production was down due mainly to unfavorable weather. But the grape crop may not match the 1965 record.

The 1965 noncitrus crop, now nearly all harvested, was close to the 1964 record and 11 percent above average. Grower prices for crops, lighter than in 1964, generally averaged higher than last year, while prices for heavier crops generally averaged lower. An important exception was sour cherries, for which prices were only a little above 1964--the effect of lighter production was largely offset by increased carryover stocks of canned and frozen cherries.

Although total noncitrus output this year was about as large as in 1964, crops of many fruits regularly canned and frozen in substantial volume were down. This resulted in large decreases in the packs of canned and frozen fruits. But carryover stocks of both canned and frozen items were up considerably. Output of dried fruits this year is up moderately because of increased raisin production.

Nuts: The 1965 crop of almonds, filberts, pecans, and walnuts combined is expected to be moderately larger than the heavy 1964 crop and nearly a fifth above average. A 50-percent increase in pecans accounts for the gain in 1965. Grower prices of these 4 edible tree nuts, compared with 1964 prices, are expected to be up for walnuts and filberts, largely unchanged for almonds, and down for pecans.

Vegetables

Fresh: Supplies of vegetables for fresh market sale this fall are moderately larger than last year. Production of cabbage is up sharply and substantial increases are in prospect for carrots, spinach, and lettuce. Supplies of late summer onions for fall and winter sale are up nearly a fifth from the moderate supply of a year ago, and record large. Only a few leading vegetables are in smaller supply, including tomatoes, snap beans, celery, green peppers, and Brussels sprouts. With relatively large fresh supplies available the next 4 to 6 weeks, prices likely will remain below those of a year ago.

Processed: Canned vegetable supplies during the 1965-66 marketing season are expected to total about the same as last season. There probably will be substantially more snap beans, kraut, and green peas, and supplies of lima beans are expected to be up a little. Offsetting are moderately fewer beets, pickles, and spinach, 16 percent less asparagus, and about a tenth less processed tomato items. Total frozen vegetable supplies are up moderately mainly due to much larger supplies of peas, carrots, and sweet corn. Supplies of snap beans are about the same as the heavy supplies of last year, but those of other frozen vegetables are smaller. Markets for canned

vegetables generally are strong; into mid-1966, both f.o.b. and retail prices are expected to average slightly higher than a year earlier. Because of large holdings of several major frozen items, prices for frozen vegetables probably will average a little below year-earlier levels.

Potatoes and Sweetpotatoes

Supplies of potatoes for fall and winter marketing are heavy. Fall crop production, the bulk of which is stored for later sale, is up a fourth from the short crop last year, and record large. Potato prices continued above average during October, but markets are expected to be under considerable pressure during the next 4 to 5 months, with prices in all regions averaging sharply below the high prices of a year earlier.

Sweetpotato supplies are up materially from a year ago, and a little above average. Production was 14 percent larger than the small crop in 1964 due to moderately more acreage and much better yields. As usual, marketings are expected to be in peak volume in November and December, then decline seasonally during the first half of 1966. Prices this fall have been below the high levels of a year earlier. While prices probably will rise seasonally in coming months, the increase is expected to be much less pronounced than a year ago.

Dry Beans and Peas

Supplies of dry beans in the 1965-66 marketing season are expected to be tight. September 1 carryover stocks were much below a year earlier, and because of bad weather, production, and quality, were reduced substantially. The 1965 dry bean crop, at 16.2 million hundredweight, was 9 percent below last year, and the smallest since 1957. Among leading classes, supplies of pintos probably are up moderately from the short supply last season, but supplies of pea, red kidney, and Great Northern beans are down considerably. Markets for dry beans are exceptionally strong, and prices this season probably will average the highest in many years.

Dry pea supplies are down moderately from last season, as larger beginning stocks were more than offset by a sharp drop in production. Although reduced, supplies are more than adequate for trade needs. Prices probably will average well above the depressed levels of last season, but below the recent 5-year average.

Cotton

As a result of another large crop, carryover of upland cotton at the end of the 1965-66 crop year is expected to show a further sharp rise to a record high. By August 1, stocks are expected to total over 1.5 million bales above the previous high of 14.4 million bales in 1956. Because of a large 1964 crop, carryover increased nearly 2 million bales during the 1964-65 crop year and on August 1, 1965, stocks were 14 million bales, the most since 1956.

Upland cotton disappearance (mill consumption plus exports) during 1965-66 is expected to be slightly higher than the past year's 13.1 million bales. The 1965 crop was estimated at 15 million bales as of November 1, same as the 1964 crop.

Production this year is being maintained by record-high yields; cotton acreage was reduced 3 percent by the domestic allotment provision of the Cotton Program. The November 1 estimated yield per harvested acre is 531 pounds, up from the previous high of 517 pounds in 1964 and the 1959-63 average of 464 pounds. Record yields this year are resulting from the continued adoption of improved cultural practices by producers and from generally favorable growing conditions in most producing areas, although conditions have not been so favorable in a few States because of adverse weather and heavy boll weevil damage.

Domestic consumption of upland cotton is expected to rise slightly further this year from the past year's 9 million bales. Use rose about 0.6 million bales during the 1964-65 crop year because of cotton's improved competitive price position and a high level of general economic activity.

Exports of upland cotton this marketing year are expected to show little change from the past year's 4 million bales. Exports are being limited by record cotton production in foreign free-world countries and by an expected working down of foreign stocks.

A new cotton program has been enacted for the 1966-69 crops of upland cotton. The law continues the one-price program, maintains the national minimum acreage allotment at 16 million acres, and retains the domestic allotment concept. But, it differs from the present program in several respects. The domestic acreage allotment may not be less than 65 percent of each farm allotment, but a reduction of 12.5 percent from each farm's share of the 16-million acre allotment is required for participation in the program, except for small farms. Producers may retire an additional 22.5 percent of their allotment, to a total of 35 percent. Payments for retired acreage will be at the rate of not less than 25 percent of parity price multiplied by the projected yield of the acreage required to be retired, and may range up to 40 percent of parity on the additional acreage. (Small farmers--those with 10 acres or less or those farmers whose projected yield of the farm allotment is 3,600 pounds or less--are exempt from mandatory acreage reductions and qualify for diversion payments.)

The basic loan level for Middling 1-inch cotton to cooperators is set at 21 cents per pound for the 1966 crop, down from 29 cents for 1965. For each of the crops in 1967 through 1969, the loan level may not exceed 90 percent of the estimated average world market price. Direct price support payments of not less than 9 cents per pound are also provided to producers. The loan rate plus such payments must reflect not less than 65 percent of parity on the projected yield of permitted acreage.

The new legislation permits 1965 acreage allotment holders to stay out of the program, forego all price support and payments, and plant and sell cotton into export without penalty. However, the national total of such nonprogram

acreage may not exceed 250,000 acres in 1966, and producers who plant some of this acreage must export their entire production.

Tobacco

Cigarette output in 1965 is estimated at a record 565 billion cigarettes--25 billion above 1964. Consumption by U.S. smokers may also be a record--up nearly 5 percent from 1964, when a decline of $2\frac{1}{2}$ percent occurred. On a per capita basis (18 years and over), consumption is estimated at 3 percent above 1964 but slightly below the 1963 record. This year, higher tax levies have increased cigarette prices in many States; next year cigarette packages will bear a health warning. Cigarette consumption next year is likely to increase further to a new high, due mainly to continuing growth in number of persons of smoking age.

Consumption of cigars and cigarillos by U.S. smokers in 1965 is estimated at nearly 8.9 billion-- $2\frac{1}{2}$ percent below the record 1964 level but 22 percent above 1963. In 1966, cigar consumption is expected to rise modestly. Cigarillo-size cigars accounted for one-fourth of the cigars smoked in 1964 and probably are accounting for a similar proportion this year.

Output of smoking tobacco for pipes and roll-your-own cigarettes is estimated at about 74 million pounds--one tenth below the 10-year high in 1964. Production of chewing tobacco this year may be near 64 million pounds and that of snuff around 30 million pounds--both lowest in many years. Production of chewing tobacco and snuff may decline further in 1966.

U.S. exports of unmanufactured tobacco in calendar 1965 may be around 500 million pounds (570 million farm-sales weight)--about 2 percent below 1964. For the year ending June 30, 1966, exports may be moderately larger than in 1964-65. Exports of flue-cured, which account for about four-fifths of the total, are expected to increase significantly over a year earlier, when they were third smallest in 10 years. Quality of the 1965 U.S. flue-cured crop is notably better than last year, and production in Rhodesia--second ranking tobacco exporter--was down this year from the extremely high level in 1964.

The 1965-66 supply of flue-cured tobacco is 1 percent below a year earlier but second largest on record. Marketings from the 1965 crop--the first to be produced under the acreage-poundage program--will be down substantially but carryover at the start of the 1965-66 marketing year was highest on record. Domestic use of flue-cured in 1964-65 rose a little from the previous year, and is expected to increase further in 1965-66. Approximately 85 percent of the 1965 flue-cured crop had been sold through early November at an average price of about $64\frac{1}{2}$ cents a pound--about 6 cents above a year earlier. Place-ments under Government loan were less than 7 percent of total deliveries, compared with about 20 percent a year earlier.

The 1965-66 supply of burley is at a record or near-record level. Carryover exceeded any previous year and the 1965 crop may be only slightly below last year. The 1964-65 domestic use of burley is estimated to have increased to the largest on record; exports in 1964-65 approached the previous year's record level, and might increase some in 1965-66. Burley auction markets are scheduled to open November 29.

Total 1965-66 supplies of Maryland, Wisconsin binder, and cigar wrapper tobaccos are indicated larger than 1964-65, but those of fire-cured, dark air-cured, cigar filler, and Connecticut binder are smaller.

Government price supports are mandatory for tobaccos produced under marketing quotas. The 1965 overall levels of Government price support are up 1 percent from 1964. The year-to-year change in overall support levels is determined by the relationship between the recent 3-year average of the parity index and the 1959 parity index. Available data indicate that overall price support levels for 1966 tobacco will be up about 2 percent. During 1962-65, overall support levels rose about 1 percent a year.

The Secretary of Agriculture must announce the amount of the 1966 flue-cured tobacco marketing quota on an acreage-poundage basis by December 1, 1965. For burley, fire-cured, dark air-cured, and sun-cured tobaccos, marketing quotas on an acreage allotment basis must be announced by February 1, 1966. For these kinds of tobacco, the Secretary--if he determines that acreage-poundage quotas would result in a more effective program--can also announce quotas on that basis. If this were done referendums would be held to see if growers favor marketing quotas on an acreage-poundage basis for the 1966-68 marketing years. If more than two-thirds of the growers voting were in favor, acreage-poundage quotas would apply; otherwise, the acreage allotment program would continue. For Maryland tobacco and eligible kinds of cigar tobacco, 1966 marketing quotas must be announced on the acreage allotment basis by February 1, 1966, and referendums will then be held for growers to vote on marketing quotas on an acreage basis for the 1966-68 crops. Under existing law, these tobaccos cannot be considered under an acreage-poundage quota determination until the 1967 crop.

Sugar and other Sweeteners

Production of sugar in the United States in 1966 is not expected to differ significantly from that for 1965, although there may be some increase next year in Louisiana where the 1965 crop was severely damaged by a hurricane in September. Production of corn sweeteners and noncaloric sweeteners seems likely to increase next year.

Domestic sugar beet and sugarcane acreage is subject to Government control under the Sugar Act. Controls in effect in 1965 in the beet and mainland cane areas restricted acreage well below the 1964 level. 1965 amendments to the Sugar Act increased marketing quotas for the mainland cane and beet sugar areas beginning this year, and provided that quotas for these areas for 1966 through 1971 will not exceed those for 1965 unless consumption requirements exceed 10,400,000 tons, raw value, which is highly unlikely in 1966.

It is also unlikely that quotas for domestic areas will decrease, since sugar consumption is expected to increase moderately.

The production of competing sweeteners--principally corn sirup, dextrose, saccharin and cyclamate--is not controlled by the Government as is sugar, and it seems likely that the upward trends in output of recent years will continue. However, the rate of growth for cyclamate, which has been extremely rapid, may slow down somewhat.

Production of corn sirup in the United States has been increasing about 8 percent per year since 1960. Construction of a new plant for producing corn sirup, which was started in 1965, will add appreciably to the industry's capacity, which is now confined to about 11 plants. Production of dextrose in the United States has been increasing about 5 percent per year since 1960. Productive capacity was expanded by about 10 percent in 1965, according to trade reports. 1964-production of corn sirup plus dextrose (dry weight basis) approximated 1,600,000 tons. This was equal to about 20 percent of the combined domestic output of sugar and corn sweeteners--15 percent if sugar imports are added to the total.

According to trade reports, production of cyclamate in the United States has multiplied several times since 1960, amounting to around 9 million pounds in 1964. Industry capacity to produce cyclamate has been estimated at 30 million pounds per year. The price of cyclamate has declined about 63 percent since 1960.

Production of saccharin, the other principal noncaloric sweetener, also has been increasing in recent years, although at a slower rate than cyclamate. Production in 1964, according to trade estimates, was about 2.5 million pounds, 50 percent above 1960. Annual productive capacity is estimated at 5 million pounds. Saccharin prices have declined about 16 percent since 1960, mostly within the past year.

Lower prices for cyclamate and saccharin should encourage additional consumption and unused plant capacities make it easy for producers to fill additional orders. The 9 million pounds of cyclamate and 2.5 million of saccharin produced in 1964 are equivalent in sweetening power to about 135,000 and 375,000 tons of sugar, respectively.

Increased production of corn sweeteners and noncaloric sweeteners will provide added competition for sugar since these products are substitutes for sugar in many of its uses. However, not all of the production of these non-sugar sweeteners replaces sugar in the marketplace. Each of the sweeteners has certain uses for which the other sweeteners are not suitable and for which the other sweeteners would not be used. Examples are the production of hard candies using mainly corn sirup and the use of noncaloric sweeteners in dietetic foods.

Timber Products

Consumption of industrial roundwood products this year is estimated at 11.7 billion cubic feet--3 percent above 1964, and a record high in a trend that has been rising fairly steadily in recent years.

Total consumption of roundwood--industrial roundwood plus fuelwood--is estimated at 12.8 billion cubic feet--a postwar peak but still below the levels attained in the early 1900's when large volumes of fuelwood were being consumed.

Production of timber products from domestic forests is estimated at 11.1 billion cubic feet, about 2 percent above 1964 and also a postwar high. Stumpage prices for most species of timber have been moving up since 1963. However, prices are still below the levels of the mid-1950's.

Apparent lumber consumption is estimated at 40.4 billion board feet, only slightly above the 40.3 billion board feet used in 1964. Softwood lumber consumption is expected to total 33.5 billion board feet--0.1 billion board feet below 1964--while hardwood lumber consumption is 0.2 billion board feet above the 1964 level.

Domestic lumber production in 1965 is expected to approximate 36.2 billion board feet, 0.6 percent above 1964 but 4 percent higher than the annual average during the last decade. Production of softwood lumber is estimated at 29.5 billion board feet, and hardwood lumber at 6.7 billion board feet. These levels are, respectively, the same and 3 percent above 1964.

The wholesale price index of lumber (1957-59 = 100) in July 1965 was 101.2--slightly above the 1964 level of 100.7. Hardwood lumber prices rose steadily during the first 7 months to a July level of 111.0--5.6 points above the 1964 average. Southern pine lumber prices showed a small rise. The indexes for Douglas-fir and most other softwoods, however, declined a point or two.

Data for the first half of 1965 indicate that imports of lumber for the year may total 5.0 billion board feet and exports 0.9 billion board feet. These levels are, respectively, 0.2 billion and 0.1 billion board feet below 1964.

Data for the first 7 months of 1965 indicate that about 49.8 million cords of pulpwood will be consumed in U. S. pulpmills in 1965. This is a record peak, exceeding 1964 by 1.5 million cords, or 3 percent.

Domestic pulpwood production in 1965 is estimated at 48.7 million cords, 3 percent above 1964. Production of round pulpwood is estimated at 37.7 million cords--some 1.6 million cords above 1964. Round softwood production is expected to be 27.7 million cords and hardwoods 10.0 million cords. These levels are, respectively, 5 percent and 2 percent above 1964.

Production of pulpwood chips, largely from coarse plant byproducts of sawmills and veneer mills, is expected to be 11.0 million cords--about 0.2 million cords under the 1964 figure.

Pulpwood prices at local delivery points have been relatively stable in recent years. In the Midsouth, for example, the price of southern pine roundwood has been around \$15.75 per cord since 1956. Prices of hardwood roundwood and chipped plant byproducts have been near \$13.10 and \$14.40 per cord, respectively, during the same period.

Softwood plywood consumption, including small amounts of veneer, is estimated at 12.1 billion square feet (3/8-inch basis), a record high in a trend that has been rising at an average annual rate of 9 percent since 1955. Consumption of hardwood plywood is also expected to reach a peak of 4.5 billion square feet, surface measure, in 1965. This is about 11 percent above 1964, and nearly double the level of a decade ago.

Softwood veneer log production in 1965 is estimated at 5.3 billion board feet, local log rule, up about 0.3 billion board feet. Softwood veneer log production has been concentrated in the West; however, 8 new plants using southern pines have been built in the South, and another 6 plants are under construction. The combined capacity of these 14 plants is estimated at slightly under a billion square feet, 3/8-inch basis.

Domestic hardwood veneer log production in 1965 is expected to be 875 million board feet, 6 percent higher than 1964, but not significantly different from the average of the last few years. Imports of hardwood plywood and hardwood veneer are expected to continue to increase in 1965 at about the same rate as in recent years.

Production of miscellaneous industrial roundwood products, such as cooperage logs, poles and piling, fenceposts, and mine timbers, is estimated at 460 million cubic feet in 1965, the same as 1964. Fuelwood production is expected to be about 1,075 million cubic feet, down somewhat. Christmas tree consumption in 1965 may approximate 46 million trees, and domestic production 34 to 36 million trees.

Naval Stores

Domestic rosin production in the 1965 crop year ending next March 31, continues to exceed requirements for the sixth consecutive year. The reverse has been true of turpentine the past 4 years. Domestic production is expected to move closer to requirements for rosin and turpentine during the 1966 crop year.

Rosin production in 1965 is expected to increase about 4 percent over 1964, to about 2.1 million drums--close to a record high. A 3 percent gain is expected in turpentine production, to about 0.7 million barrels, the most since 1950.

Domestic usage and exports of rosin are expected to rise in 1965 to the highest level since 1960. Use is increasing gradually throughout the world. There are 5 major rosin markets--paper, adhesives, rubber, protective coatings and printing inks. About 40 percent of U. S. usage currently is in sizing paper.

Disappearance of U. S. turpentine will be lower in 1965, mainly because an estimated 37 thousand barrel (4 percent) reduction in supplies is expected to limit exports to a record low of 40,000 barrels. Domestic use, however, is expected to increase about 5 percent to an alltime high of about 708,000

barrels. Rapidly expanding industrial use is limiting the volume available for export and for domestic retail distribution.

At the anticipated volumes of production and disappearance, the rosin carryout next March 31 should rise 10 to 15 percent, to about 1.2 million drums, the highest in 23 years. Gum rosin price-support collateral will constitute about two-thirds of the carryover.

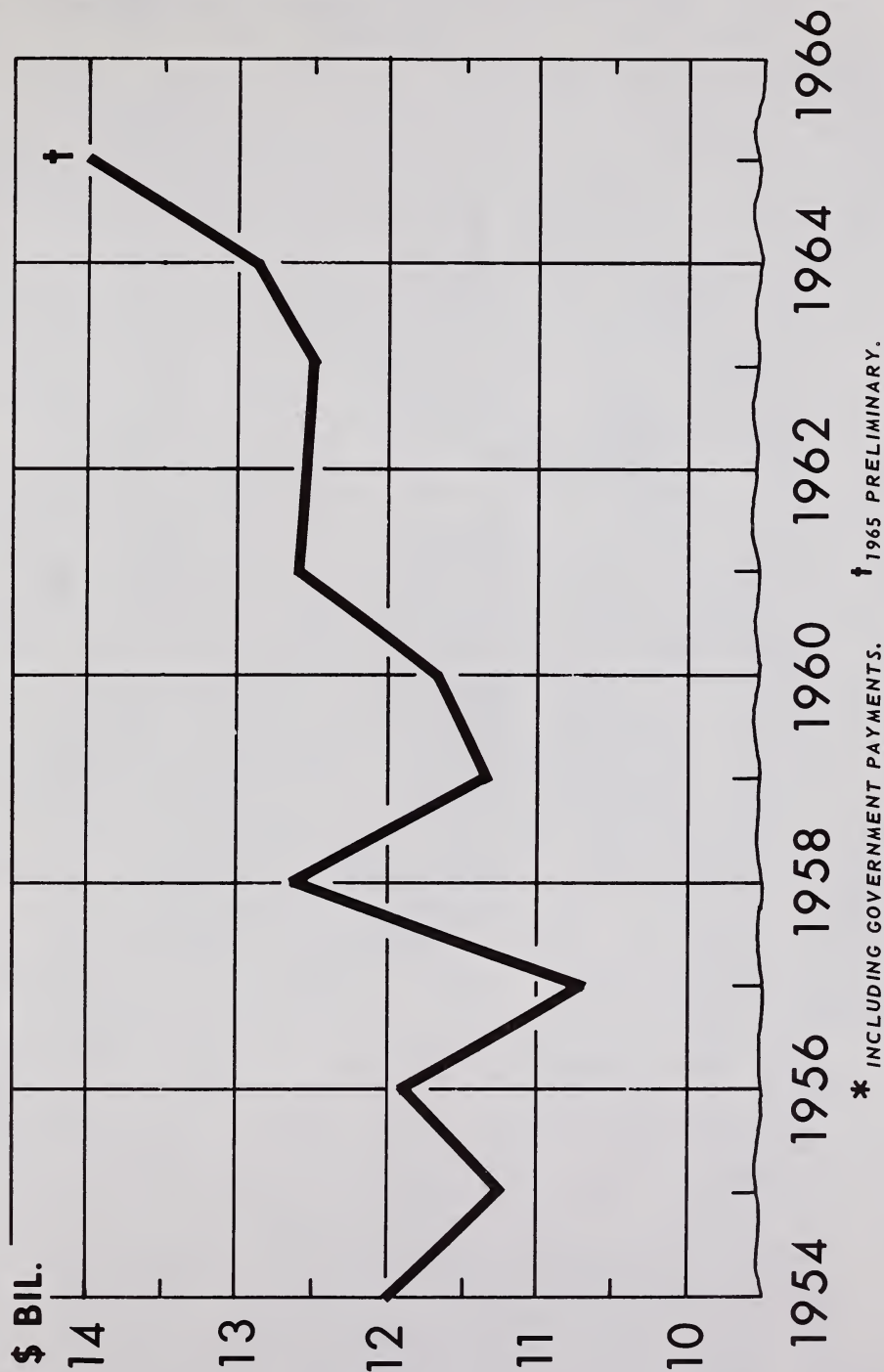
At the present rate of domestic and export disappearance, the turpentine carryout next March 31 may be the lowest in 18 years.

Reflecting lower loan rates for some grades of rosin, domestic gum rosin prices are expected to decline in 1965 after 3 years of stability at about \$11.00 per cwt. in drums f.o.b. production points. The export sales program for loan-rosin stocks has established a 2-price system for gum rosin. Such dual pricing has been in effect for several years on lower-priced U.S. tall oil and steam-distilled wood rosin. The export sales program also has narrowed the difference between export prices for U.S. and West European gum rosin. U.S. gum rosin prices are expected to become increasingly competitive.

Gum and steam distilled wood turpentine prices are about 6 cents per gallon above a year earlier.

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REALIZED NET FARM INCOME*



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